

# "This Remarkable Growth": Investment in Canadian Great Lakes Shipping, 1900-1959'

**M. Stephen Salmon**

*L'essor de l'industrie canadienne du transport des Grands Lacs va de pair avec la croissance de l'ensemble de l'économie canadienne au cours des six premières décennies du vingtième siècle. Cet article présente comme analyse préliminaire de cette industrie, de brèves études de cas sur trois compagnies de transport dont la Canada Steamship Lines, la Paterson Steamships Limited et la compagnie de transport du Québec et de l'Ontario. Ces compagnies furent chargées d'un pourcentage important des cargaisons de l'époque. Elles représentent également les liens qu'avaient les propriétaires canadiens des compagnies de transport des Grands Lacs avec l'économie Nord-Américaine. Tel que le démontre leur histoire collective, la fortune de ces trois propriétaires de navires est le reflet de la performance de l'économie canadienne entre 1900 et 1959.*

This remarkable growth did not come about steadily but occurred during periods of expansion in the Canadian economy.<sup>2</sup>

The Canadian Great Lakes shipping industry began the twentieth century as a peripheral sector in the national economy. Its survival depended on shipowners being able to earn a profit on the margins of the American export grain trade. Western Canadian grain shipments through the twin ports of Fort William, Ontario and Port Arthur, Ontario, (collectively known as the Lakehead), were only starting to displace Chicago as the major source for cargoes. The development of the industry, from 1900 to the opening of the St Lawrence Seaway in 1959, went through three periods of sustained growth that were interrupted by two world

<sup>1</sup> This is a revised version of a paper presented to the 4<sup>th</sup> International Congress of Maritime History, Corfu, Greece in June 2004. The author would like to thank Robin Craig and John Armstrong for their comments. The author is also indebted to Donald C. Paterson for permission to use the unsorted Paterson Business and Family Archives (PA) deposited with the Library and Archives Canada (LAC) and to Thierry Brossard for allowing access to the Quebec and Ontario Paper Company records deposited with LAC.

<sup>2</sup> Canada, *Report of The Royal Commission on Coasting Trade* (Ottawa, 1958), 61.

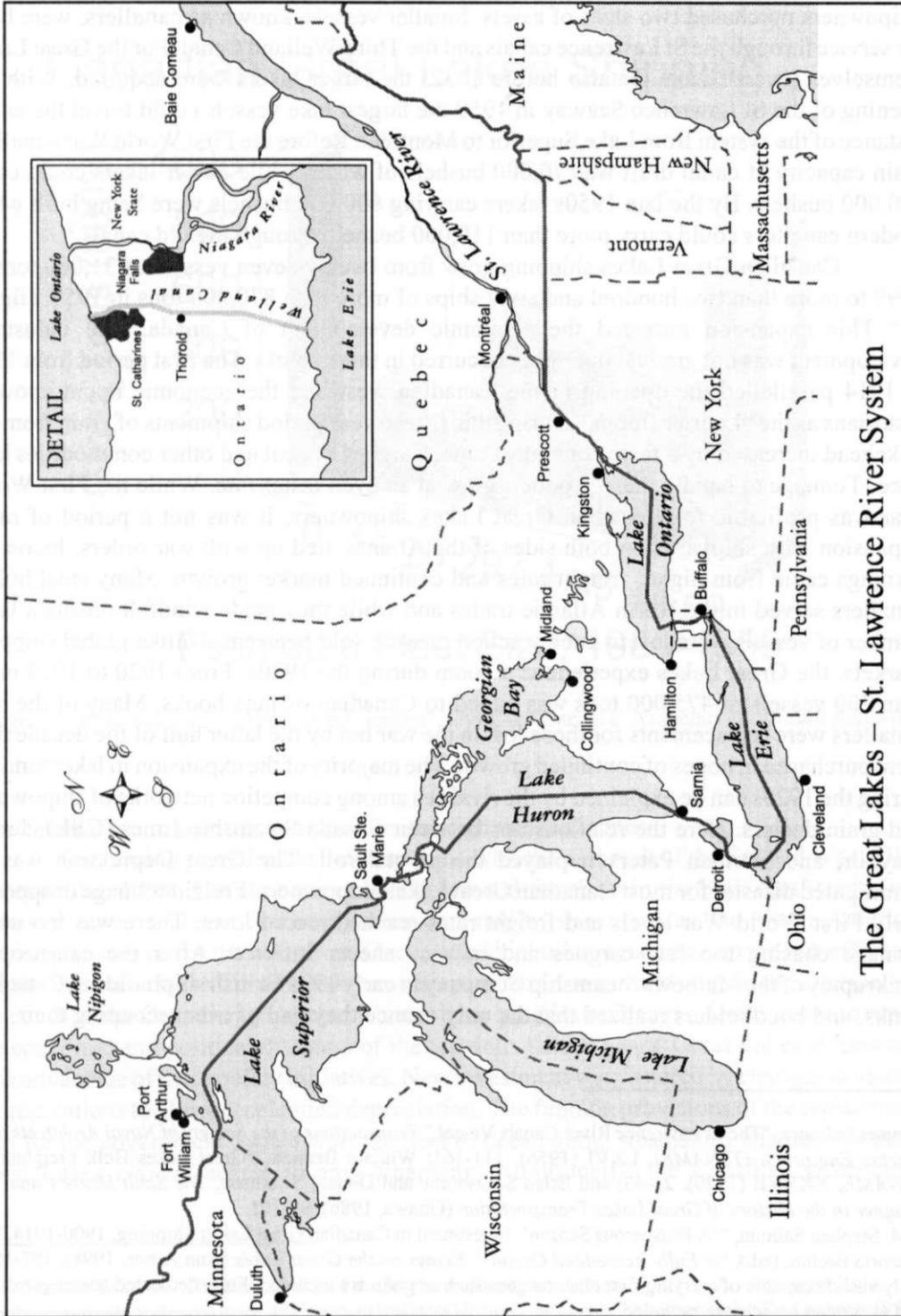
wars and the Great Depression.

This expansion paralleled the growth of the entire Canadian economy during the first six decades of the twentieth century. A preliminary analysis of the industry and "This Remarkable Growth," is provided here through brief case studies of three Great Lakes shipping firms.<sup>3</sup> The firms under scrutiny represent a partial cross-section of "Canadian" shipowners operating on the Great Lakes.<sup>4</sup> The shipowners are: Canada Steamship Lines (CSL), a fully integrated shipping provider that ran bulk freight, package freight and passenger services, Paterson Steamships Limited, (later the steamship division of N. M. Paterson and Sons Limited), which was initially a bulk carrier specializing in the grain trade, and the Quebec and Ontario Transportation Company (Q. & O.), a subsidiary of the Tribune Company, (publisher of the *Chicago Tribune*). The Q. & O.'s primary purpose was to carry pulpwood and newsprint. Taken together these three firms moved a significant percentage of the system's typical cargoes. They also represent the ties that Canadian Great Lakes shipowners had to the larger North American economy from the Canadian export grain trade to the American newspaper industry. As their collective history demonstrates these three shipowners' fortunes corresponded to the performance of the entire Canadian economy from 1900 to 1959.

Investment in Canadian Great Lakes shipping was shaped by the infrastructure of canals and the depth of connecting channels in the system. Steaming west from Montreal, vessels first avoided the Lachine Rapids and the other rapids on the St Lawrence River by using the canal system that reached from Montreal to just below the town of Prescott, Ontario one hundred and twenty miles up river. By 1903 all of these locks on the canals could accommodate ships 250 feet long with a beam of by 43 feet, drawing 14 feet of water; for bulk carriers this was roughly a 2,000 gross ton vessel. The next obstacle, Niagara Falls, was overcome by the Third Welland Canal linking Lake Ontario with Lake Erie. The Canal had been opened to the same size as the St Lawrence canals in 1887. In 1932 the new Welland Ship Canal was completed allowing ships as long as 735 feet by 75 feet to navigate as far east as Prescott. The next impediment was on the St. Mary's River linking Lake Huron with Lake Superior. Both the American and Canadian governments had built locks to overcome the St. Mary's Falls. At least one of these flights of locks was always able to accommodate the largest ships sailing the Great Lakes. By the time our vessel from Montreal reached the Lakehead, it would have travelled twelve hundred miles.

<sup>3</sup> The paper can only be an introduction to post-1945 Canadian Great Lakes shipping because the majority of the files created by the Canadian government's transportation agencies, including the Department of Transport and the Canadian Maritime Commission have yet to be released by LAC. These records, particularly those relating to the Canadian Vessel Construction Act and the Park Steamship replacement plan are central to the study of investment in Canadian Great Lakes shipping from 1945 to 1959, see Canada, *Report of The Royal Commission on Coasting Trade*, 55-56, and 150-151.

<sup>4</sup> One shipowner, the Algoma Central Railway, whose surviving records are sufficient to allow a study of its performance has not been analyzed. The Algoma Central fonds is held by the Sault Ste. Marie, Ontario, Public Library. For a commissioned corporate history see, Roderick K. Cunningham, *Algoma Central Corporation: The Centennial Anniversary History, 1899-1999* (Sault Ste. Marie, ON, 1999).



Map by Christopher Johnson

Shipowners purchased two sizes of assets. Smaller vessels, known as canallers, were built for service through the St Lawrence canals and the Third Welland Canal. For the Great Lakes themselves (except Lake Ontario before 1932) the larger lakers were acquired. With the opening of the St Lawrence Seaway in 1959 the largest lake vessels could travel the entire distance of the system from Lake Superior to Montreal. Before the First World War canallers grain capacity at canal draft was 70,000 bushels of wheat while newer lakers could carry 400,000 bushels. By the late 1950s lakers carrying 800,000 bushels were being built while modern canallers could carry more than 110,000 bushels through the old canals.<sup>5</sup>

Canadian Great Lakes shipping grew from twenty-seven vessels of 31,000 tons in 1899 to more than two hundred and sixty ships of more than 870,000 tons in 1959, (figure 1).<sup>6</sup> This expansion mirrored the economic development of Canada. The industry's development was not gradual but rather occurred in three spurts. The first period from 1900 to 1914 paralleled the opening of the Canadian west and the economic boom known to historians as the "Laurier Boom." During this fifteen year period shipments of grain from the Lakehead increased by a factor of almost nine. Cargoes of coal and other commodities kept pace. Tonnage to handle these products grew at an even faster rate. While the First World War was profitable for Canadian Great Lakes shipowners, it was not a period of rapid expansion with shipyards on both sides of the Atlantic tied up with war orders. Increased earnings came from higher freight rates and continued market growth. Many steel hulled canallers served in the North Atlantic trades and while they made windfall profits a large number of vessels were lost to enemy action or were sold overseas. Unlike global shipping markets, the Great Lakes experienced a boom during the 1920s. From 1920 to 1929 more than 200 vessels of 475,000 tons was added to Canadian owners books. Many of the new canallers were replacements for those lost in the war but by the latter half of the decade they were purchased in hopes of continued growth. The majority of the expansion in laker tonnage during the 1920s can be explained by the rivalries among competing networks of shipowners and grain dealers. Here the relationships between Canada Steamship Lines (CSL), James Playfair, and Norman Paterson played the pivotal role. The Great Depression was an unmitigated disaster for most Canadian Great Lakes shipowners. Freight tonnage dropped to early First World War levels and freight rates reached record lows. There was too much tonnage chasing too few cargoes and balance sheets suffered. After the catastrophic bankruptcy of the Mathews Steamship Company in early 1931 British shipbuilders, Canadian banks, and bondholders realized that the only chance they had of ever recouping their

<sup>5</sup> James Gilmore, "The St Lawrence River Canals Vessel," *Transactions of the Society of Naval Architects and Marine Engineers*, (TSNAME), LXXVI (1956), 111-161; William Bennett, "Great Lakes Bulk Freighters," *TSNAME*, XXXVII (1929), 21-43; and Brian S. Osborne and Donald Swainson, *The Sault Marie Canal: A Chapter in the History of Great Lakes Transportation* (Ottawa, 1986), 98-101.

<sup>6</sup> M. Stephen Salmon, "'A Prosperous Season': Investment in Canadian Great Lakes Shipping, 1900-1914," in Victoria Brehm, (ed.), *"A Fully Accredited Ocean": Essays on the Great Lakes* (Ann Arbor, 1998), 107-154. Only vessels capable of carrying first class cargoes such as grain are included. Fully dedicated passenger ships and excursion vessels are excluded.

## Canadian Great Lakes Shipping

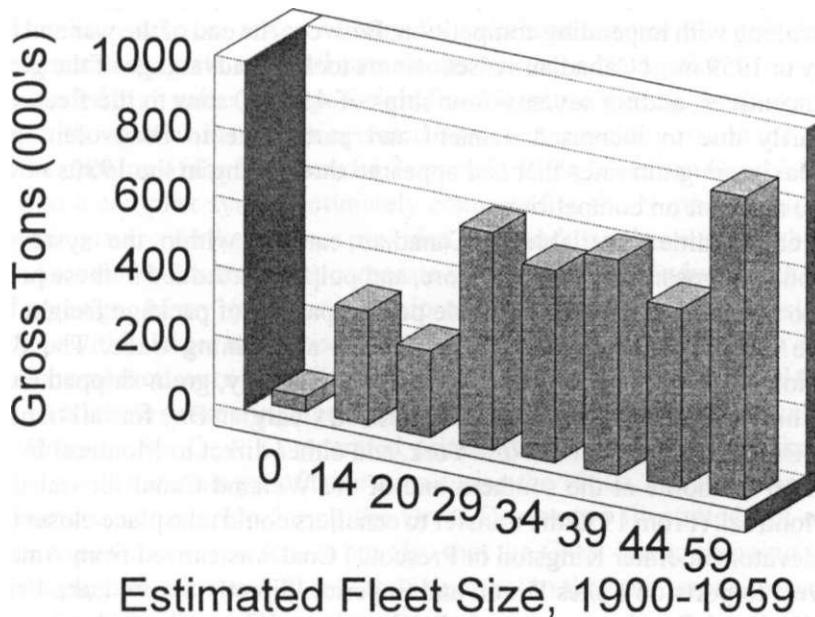


Figure 1, from Salmon, "A Prosperous Season", and Lake Carriers' Association, *Annual Reports*

investments was to nurse the shipowners through the hard times.<sup>7</sup>

The turning point for the industry came with the outbreak of the Second World War in September 1939. The almost immediate demand for ships in the high seas' trades was followed by an increase in Great Lakes commodity shipments as the North American economy geared up for the war effort. Once again shipbuilders focussed on the war effort and despite increased taxes Canadian shipowners profited from a world war. In the aftermath of the conflict, the Canadian government's maritime policies reflected a desire never to repeat the economic and political disasters of the previous fifteen years. Great Lakes shipowners took advantage of these policy initiatives. New investment was fostered by changes in income tax regulations to allow accelerated depreciation. The funding provisions of the replacement plan for the government owned wartime fleet of ocean going steamships enabled Canadian Great Lakes owners access to easy financing. Additionally, the Canadian government

<sup>7</sup> M. Stephen Salmon, "The Bankruptcy of the Mathews Steamship Company, 1931: A Cautionary Tale," an unpublished paper presented to the 4<sup>th</sup> Canadian Business History Conference, Peterborough, ON, October, 1994.

aggressively pursued a treaty with the United States to develop a new St Lawrence River waterway. This treaty led to the building of the St Lawrence Seaway between 1954 and 1959 with the result that the Great Lakes finally became accessible to full sized ocean going vessels. For Canadian Great Lakes shipowners these developments presented increased opportunities along with impending competition. Between the end of the war and the opening of the seaway in 1959 most Canadian vessel owners took full advantage of the government's investment incentives, adding seventy-four ships of 419,000 tons to the fleet. Profits also continued partly due to increased demand and partly due to benevolent government regulation. Maximum grain rates that had appeared threatening in the 1930s now seemed a commendable restraint on competition.

The commodities available to Canadian carriers within the system consisted primarily of bulk cargoes: grain, coal, iron ore, and pulpwood. Added to these primary loads was the not so plentiful, but more profitable per ton parcels of package freight.<sup>8</sup> Passenger services were also operated but by 1930 this was a declining trade. The direction of commodity flows was only partly complementary. Originally, grain shipped east from the Lakehead to three destinations: several small ports on Georgian Bay for rail transshipment to Montreal, to Buffalo for transfer to New York, and either direct to Montreal by canaller or by laker to Port Colborne at the southern end of the Welland Canal for transshipment by canaller to Montreal. (From 1932 the transfer to canallers could take place closer to Montreal from grain elevators at either Kingston or Prescott.) Coal was carried from American Lake Erie ports west to ports on Lakes Huron and Superior, directly across Lake Erie, and east through the Welland Canal to ports on Lake Ontario and down the St Lawrence River to Montreal. Grain and coal shipments were partially complementary with westbound lakers carrying coal and returning with grain. However, before the 1930s the majority of the coal trade was controlled by American registered vessels.<sup>9</sup> Iron ore shipments paralleled grain shipments because they originated at American ports on Lake Superior and were destined for the three Canadian Great Lakes steel producing centres, Sault Ste. Marie, Port Colborne, and Hamilton, (before 1932 iron ore for Hamilton was sent by water to Port Edward, now part of Sarnia, Ontario, at the southern end of Lake Huron and then by rail). From 1954 iron began to be mined in Labrador. This ore was sent by rail to Sept-Îles, Quebec from where it was shipped west through the system to Canadian and American steel mills. Shipowners could now benefit from more interrelated grain and ore commodity flows. Before this development what complementarity existed was based on the shipment of pulpwood from small lower St

<sup>8</sup> Under normal peace time conditions coasting regulations on both sides of the border prohibited ships registered in other nations (or in the Canadian case non-British registered vessels) from engaging in that country's coastal trade. These rules were suspended for the duration of both World Wars after American entry into the conflicts, see M. Stephen Salmon, "'Rank Imitation and the Sincerest Flattery': The Dominion Marine Association and Revision of the Canadian Coasting Regulations, 1922-1936," *The Northern Mariner/Le Marin du nord*, I, No.3 (July 1991), 1-24; and United States, War Department, Corps of Engineers, *Statistical Report of Lake Commerce Passing through Canals at Sault Ste. Marie Michigan and Ontario* (Washington, 1918).

<sup>9</sup> United States, *Statistical Report* (Washington, 1920-1939).

Lawrence River ports westward to paper mills on both sides of the border. This tonnage never approximated the downbound grain and coal traffic. Pulpwood was also shipped from timber limits on Lakes Superior and Huron to paper mills as far east as the Welland Canal.

The package freight trade was controlled by CSL. They ran an express Montreal - Toronto - Hamilton service, and a Montreal - Lakehead service. On this latter run the canallers returned with grain in small parcels. Its Northern Navigation division passenger vessels also carried high value package freight from Sarnia to the Lakehead. And its package freight lakers although few in number operated between the major ports on the upper lakes.<sup>10</sup>

By the opening of the St Lawrence Seaway in 1959, Canadian Great Lakes shipping had grown into a complex system intimately connected to the North American economy. These connections were via the services provided to the industrial base and to the agricultural community. As well there were direct corporate linkages with the industries that utilized the shipowners tonnage. Many of the steamship companies were either subsidiaries of or divisional units within larger enterprises. Most of the smaller companies such as the Q. & O. that served niche markets were part of larger business networks. Paterson's and CSL reflected the industry as a whole prospering during periods of economic growth and suffering in the downturns. Because the Q. & O. operated primarily to serve its parent firms it was an exception to the rule remaining profitable even during the 1930s. The patience shown by the Canadian financial community during the Great Depression illustrated not only that the bankers were exposed to major losses but also that the Great Lakes shipping industry was central to the Canadian economy. It was too important to the long term economic health of the country to be allowed to collapse completely.

In the fifteen years before the outbreak of the First World War, investment in Canadian Great Lakes shipping took off. This period saw the transformation of the virtually unsettled North West Territories and the tiny province of Manitoba into thriving settler communities with economies based on the export of grain to European markets. The accompanying investment in western infrastructure: railways, grain elevators, and towns had a major impact on the entire Canadian economy, not the least of which was Prairie settlement's effect on Great Lakes shipping. Grain shipments from the Lakehead grew from an average of 389,300 tons for 1895-1899 to an average of 3,447,900 tons for 1910-1914. Other commodity shipments and total earnings also kept pace. It was truly "A Prosperous Season."<sup>11</sup>

Before the turn of the century Canadian shipping could be divided into two sectors neither of which had shown much growth potential. The passenger trade from "Niagara to the Sea" was controlled by a virtual monopoly, the Richelieu and Ontario Navigation Company (R. & O.). It was by far the largest shipping firm on the northern side of the Great Lakes - St Lawrence River system. The R. & O. which was controlled by Louis Forget,

<sup>10</sup> Marine Museum of the Great Lakes at Kingston (MMK), Canada Steamship Lines Collection (CSL), 993.2.157, *Annual Report*, 1926.

<sup>11</sup> This section follows Salmon, "A Prosperous Season."

owned twenty-seven vessels of 24,900 tons and was capitalized at \$2,088,000.<sup>12</sup> Perhaps more importantly, Forget and the other executives and directors of the R. & O. could be considered members of the Dominion's economic elite. During the first decade of the twentieth century the company increased its tonnage by 50 per cent while owning fewer ships. It was a profitable firm with returns averaging 5.4 per cent but these were only equal to those returns provided by other mature investments in the Canadian economy.

The R & O.'s performance was in contrast to rapid growth shown by its upper lakes counterpart the Northern Navigation Company (NNC).<sup>13</sup> The NNC's capital more than tripled during the decade while its tonnage increased at virtually the same rate. This expansion was reflected in the NNC's rate of return which despite two bad years caused by management irregularities averaged almost 7.7 per cent. However, the passenger firms' success paled in comparison with the expansion of the bulk carriers. Bulk tonnage increased from a mere 31,000 to almost 300,000 by 1914. More than 130 non-passenger vessels including 25 lakers and 109 canallers were added. Originally the bulk carriers were conservatively financed profitable companies. Some firms such as the Montreal Transportation Company (MTC) and the St Lawrence & Chicago Steam Navigation Company (SLC) pre-dated the Laurier boom. But as opportunities increased, new operators, including James Playfair and others, entered the field to take advantage of the expanding demand for tonnage creating aggressive leveraged ventures.<sup>14</sup> These companies had direct links to investment capital in the form of cross linkages with Canadian banks and the newer resource based elite. While their rates of return were more erratic than the staid R. & O. they were much greater averaging 11 per cent.<sup>15</sup>

Given the bulk carriers' success and their seemingly ever expanding market the sector was, by 1910, ripe for consolidation. Indeed it may have been under capitalized as there was little leverage in many of the industry's corporate structures.<sup>16</sup> This financial

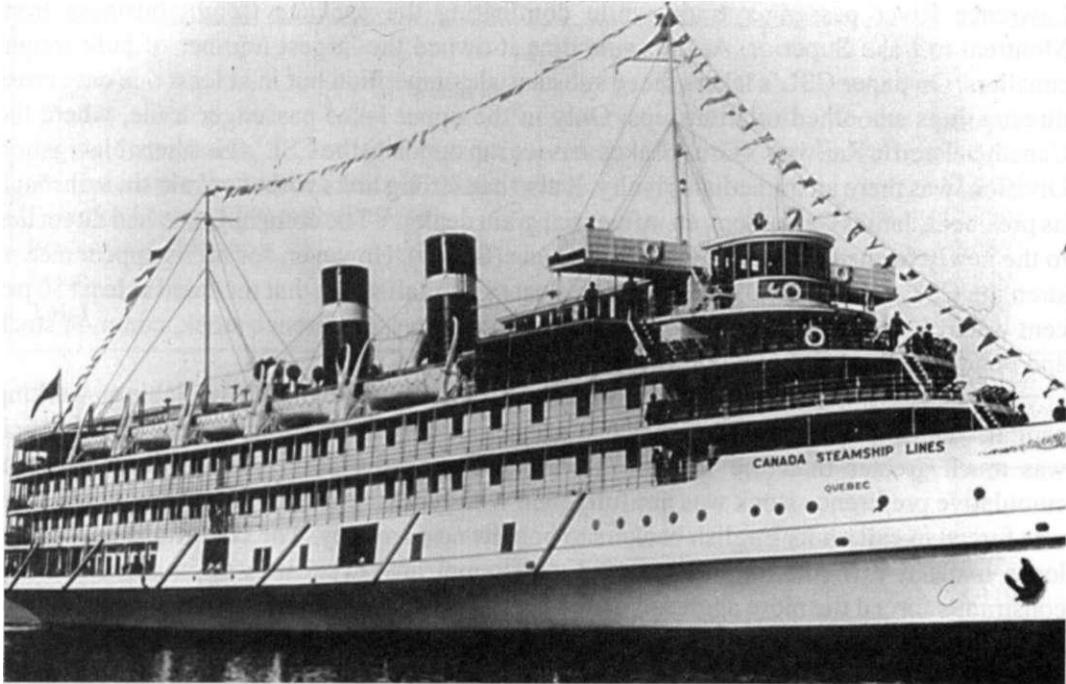
<sup>12</sup> The R. & O. had been refinanced between 1894 and 1897. Forget and several directors had been allowed to buy stock at 60 cents on the dollar. Queen's University Archives (QUA), Canada Steamship Lines fonds (CSL), box 24, R. & O. minute book, 18 February 1897.

<sup>13</sup> It should be noted that the NNC was more heavily involved in the package freight trade than the R. & O., Salmon, "A Prosperous Season."

<sup>14</sup> For Playfair's shipping network see, Ontario Ministry of Consumer and Commercial Relations (OCCR), Companies Branch, Dormant Corporate Files (DFC), No. 5133, Empress Transportation Company Limited, and No. 5390, Midland Navigation Company Limited; and M. Stephen Salmon, "'They have already loaned enough money:' James Playfair and Investment in Canadian Great Lakes Shipping, 1913-1930." unpublished paper presented to the Annual Meeting of the Canadian Nautical Research Society, Corner Brook, NF, August 1999.

<sup>15</sup> Even the unsuccessful Kingston Shipping Company was the exception that proved the rule as this single ship firm engaged in second-class trades see, Cheryl McWatters, "Counter - example in the development of Great Lakes shipping: the case of the Kingston Shipping Company," *Accounting History* 7, No. 2 (July 2002), 57-88.

<sup>16</sup> Two exceptions were the Canadian Lake and Ocean Navigation Company, see LAC, Records of the Department of Justice, Record Group (RG) 13, volume 1310, Royal Commission on Insurance, Transcripts of Hearings, vol. 1, 335-336; and the Inland Navigation Company note, OCCR, DFC, No. 6463, Inland Navigation Company Limited file, "Indenture between Inland Navigation Company Limited [and] Strathcona Limited *et al*," 1 April 1908; and QUA, CSL, box 123, Inland Lines Limited file, "Inland Navigation Co. Balance Sheet at December 31", 1908."



The passenger ship *Quebec* served Canada Steamship Lines between Montreal and the Lower St. Lawrence River.

conservatism coupled with their ties to the major banks and stock promoters, made it almost inevitable that the industry would be caught up in the merger mania that was sweeping the Canadian economy.<sup>17</sup> The result of these factors was the formation of CSL.

#### CANADA STEAMSHIP LINES

The entrepreneurs who formed CSL between 1910 and 1914 included a wide range from aggressive Canadian promoters through English shipowners interested in protecting their trans-Atlantic networks.<sup>18</sup> The company created by James Playfair, Christopher Furness, W. Grant Morden, James Carruthers, James Norcross, Roy M. Wolvin, and the other investors was a quasi-monopoly completely dominating Canadian Great Lakes shipping,

<sup>17</sup> For Canadian mergers during the Laurier boom see, Gregory Marchildon, *Profits and Politics: Beaverbrook and the Gilded Age of Canadian Finance* (Toronto, 1996).

<sup>18</sup> This paragraph follows M. Stephen Salmon, "'This Unsatisfactory Condition: The Formation and Financing of Canada Steamship Lines, 1910-1915,'" *International Journal of Maritime History* XII, No. 1 (June 2000), 145-176.

owning one hundred and three vessels of 190,000 tons. It controlled the Lake Ontario and St Lawrence River passenger trade while dominating the package freight business from Montreal to Lake Superior. At the same time it owned the largest number of bulk freight canallers. On paper CSL's lakers faced substantial competition but in at least one case cross directorships smoothed relationships. Only in the upper lakes passenger trade, where the Canadian Pacific Railway's Great Lakes service ran opposite the CSL's Northern Navigation Division, was there an immediate rivalry. It also had strong links with the grain trade through its president, James Carruthers, an influential grain dealer.<sup>19</sup> The company also had direct ties to the newly formed, Steel Company of Canada (Stelco). However, for all its appearance of strength, CSL was financially weak with a bloated capitalization that included at least 50 per cent water. It carried four levels of securities: debentures, preference stock, common stock and bonds totalling \$34,500,000 (figure 2).

But CSL was soon in difficulties because it had only \$212,000 available as working capital.<sup>20</sup> During 1914, its first year of operation, the company lost money. The actual deficit was much greater than the \$59,000 reported because the dividends on the 6 per cent cumulative preference stock was not fully paid with resulting losses being \$461,000.<sup>21</sup> CSL was forced to call on its English backers to borrow more money. The conditions on the new loans made it difficult for the company to attempt any expansion of its fleet.<sup>22</sup> These constraints forced the more aggressive members of the CSL network to satisfy their appetite for growth outside the formal bounds of the company. To compound CSL's difficulties not all of the original members of the promotion found the new network congenial and before the actual incorporation of the company, James Playfair and his own financial backers were forced into opposition.<sup>23</sup> Playfair together with H. W. Richardson, the prominent grain dealer, formed a new firm, the Great Lakes Transportation Company (GLT) in 1914. Originally, the GLT relied on old second-hand ex-American lakers, but in the early 1920s it would grow into a viable competitor.<sup>24</sup>

CSL was saved by the rising demands for tonnage as the Great War became a battle of attrition. It was able to find profitable charters for its steel hulled canallers. And as the pressures on North American agriculture to feed the Allies raised Great Lakes grain rates, its lakers were kept fully employed. Results for 1915 were much improved, although the

<sup>19</sup> James Carruthers CSL's president between 1913 and 1919 who was also president of the Northern Elevator Company was described as Canada's "wheat king." Among his many directorships was one with the SLC which in 1914 controlled laker tonnage second only to CSL see, M. Stephen Salmon, "Scapegoats and Opportunists: The Management of Canada Steamship Lines, 1913-1922," unpublished paper presented to the Fifth Canadian Business History Conference, Hamilton, Ontario, October 1998. Canadian Pacific Railway's Great Lakes service is described in, George Musk. *Canadian Pacific: The Story of Famous Shipping Line* (London, 1989), 124-135.

<sup>20</sup> M M K, CSL, 996.39.46, "Preliminary Report on Canada Steamship Lines Limited," 10 March 1922.

<sup>21</sup> M M K, 996.39.6, CSL minute book, 13 August 1914, and 993.2.157, *Annual Report*, 1914.

<sup>22</sup> *Ibid.*, 996.39.6, CSL minute book, 5 January 1915, 6 January 1915, financial committee minutes, 11 February 1915, and London Advisory Committee minutes, 7 October 1914, 14 December 1914 and 21 January 1915.

<sup>23</sup> Salmon, "This Unsatisfactory Condition," 171.

<sup>24</sup> For the Great Lakes Transportation Company see Salmon, "They have already loaned enough money."

**Canada Steamship Lines: Capital Structure, 1913-1922**

<b>1913</b>	
<b>Security</b>	
	(\$000's)
5% Debenture/Bonds	6,351
7% Cumulative Preference Shares (\$100 par value)	12,500
Common Shares (\$100 par value)	12,000
Predecessor Mortgages	3,065
Loans	519
<b>Total</b>	<b>34,504</b>

<b>1921</b>	
<b>Security</b>	
	(\$000's)
5% Debenture/Bonds	5,319
7% Cumulative Preference Shares (\$100 par value)	12,500
Common Shares (\$ 100 par value)	12,000
7% Ten Year First Mortgage Collateral Bonds	2,542
Davie Shipbuilding Loans	1,022
Loans	1,944

<b>1922</b>	
<b>Security</b>	
	(\$000's)
5% Debenture/Bonds	4,923
7% Cumulative Preference Shares (\$100 par value)	12,500
Common Shares (\$100 par value)	12,000
7% Twenty Year First Mortgage Bonds	6,000
7% Debenture Notes	850
<b>Total</b>	<b>35,327</b>

Figure 2, from MMK, CSL, minute books, and *Annual Reports*.

preference share dividends were not resumed adding to the deficit account.<sup>25</sup> But more significantly, the network members had begun to invest in tonnage outside of the company. The initial steps were small with the re-establishment, as an operating company, of a minor component of the original CSL merger, Lake Commerce Limited in 1914.<sup>26</sup> This was followed in 1915 by the network's acquisition of the larger Canadian North West Steamship Company from the estate of its surviving owner.<sup>27</sup> The assets of these firms were noteworthy only because their tonnage was at best second-class. Eventually however, the continuing wartime demand for ships presented CSL with an opportunity that it could not pass up. Early in 1916 a bidding war developed for the SLC. The company was able to win this battle with Playfair but because it had not yet renewed the dividend payments on its preference shares, the trustees for the debenture holders refused permission for the purchase. To make sure that the vessels would not fall into its competitors hands the insider network was forced to purchase the SLC itself. Then after CSL had begun the repayment of the dividends due its preference shareholders, it purchased SLC's ships from its own executives. The deal was done at a substantial profit for the network members.<sup>28</sup> This form of transaction was repeated several times during the course of the war and its immediate aftermath.

As the war continued the insider's network expanded its holdings. Its prime inland acquisition was made shortly after the SLC purchase in September 1916, when it bought the assets of the MTC. This transaction was a classic leveraged buyout whereby the network paid \$50,000 down for assets with a book value of \$1,818,000, and then raised the final payments by selling off three of the MTC's canallers at inflated wartime prices.<sup>29</sup> Then, in a series of deals, the network's outstanding non-CSL inland tonnage was folded into a newly reincorporated MTC capitalized at more than three times its predecessor. The new firm's only first class asset was a laker completed in 1917 while its remaining floating property was culled from Great Lakes' backwaters and included various wooden steamers and barges.

<sup>25</sup> Operational earnings increased to by 17 per cent see, *Ibid.*, 993.2.157, *Annual Report*, 1914 and 1915.

<sup>26</sup> Archives of Ontario [hereafter AO], Records of the Corporation Branch, RG 55-5, Lake Commerce Limited file, Summary of the State of Affairs 31 December 1915, 11 May 1916; *Canadian Railway and Marine World*, (*CRMW*), (October 1914).

<sup>27</sup> LAC, Records of the Corporations Branch, RG 95, vol. 1251, Canadian North West Steamship Company, Draft Form of Letters Patent, 17 June 1903; Annual Return, 3 September 1918; and AO, RG 55-5, Canadian North West Steamship Company, Summary of the State of Affairs 31 December 1915, 13 April 1917.

<sup>28</sup> MMK, CSL, 996.39.6, minute book, 4 April 1916, 1 June 1916, 11 July 1916, 27 July 1916; London Advisory Committee minutes, 3 April 191 [6] [this entry is erroneously dated 1918], 3 November 1916; 993.2.157, *Annual Report*, 1916, and 996.39.46, "Preliminary Report," and *CRMW*, (February 1916, May 1916, and April 1917).

<sup>29</sup> QUA, CSL, box 116, Montreal Transportation Company minute book, 3 November 1915, 26 September 1916, R. M. Wolvin and J. W. Norcross to L. Henderson, Managing Director Montreal Transportation Company, 22 September 1916 (two letters), Wolvin and Norcross to Henderson, 26 September 1916, Henderson to Wolvin and Norcross, 2 October 1916, Wolvin and Norcross to Henderson, 2 October 1916; and box 117, Wolvin and Norcross to [Wm. Crawford], Secretary-Treasurer Montreal Transportation Company Limited, 29 May 1917.

Despite the lack of modern tonnage the new MTC took advantage of high freight rates to turn a profit for its network owners.<sup>30</sup> The network also moved into both the trans-Atlantic and trans-Pacific trades.<sup>31</sup> Their primary investments in the trans-Atlantic trades were done under the auspices of the Steam Navigation Company of Canada which acquired a number of vessels to take advantage of wild freight rates. Steam Navigation was also used as the network's principle vehicle for financial transactions.<sup>32</sup>

CSL proper had a profitable war helped by increased demand for tonnage and higher freight rates. By the end of 1917 it repaid all of the arrears owing on its preference shares and posted a profit of \$1,300,000. However, it not only benefited directly from higher freight rates, it also played the shipping market to its advantage by both buying and selling canallers as the opportunity arose. Thus its cash flow reflected an understanding that ships not only carried commodities but were commodities in and of themselves.<sup>33</sup> CSL also turned its attention beyond the Great Lakes acquiring its first ship for North Atlantic service and purchasing a large auxiliary wooden schooner designed for the trans-Pacific lumber trade. The schooner's acquisition from a single ship company controlled by members of the insider network illustrated that the network members saw little difference between their own collective endeavours and the publically traded firm, CSL that they controlled.<sup>34</sup> All of these vessels had come at inflated wartime prices; the canallers cost \$157 a ton while the steamer *Armonia* was purchased for \$1,250,000 or \$239 a ton and the schooner *Malahat* cost \$209 a ton. Two of the six canallers were immediately sold for \$171 a ton.<sup>35</sup>

CSL continued to invest in trans-Atlantic shipping as the war came to an end in 1918. The company was in excellent financial shape with a surplus of \$5,000,000 and with global shipping markets booming, it declared its first dividend on common stock and laid plans for an expansion of its oceanic services. However, CSL's profits had been fattened by

<sup>30</sup> Salmon, "Scapegoats and Opportunists."

<sup>31</sup> For the formation of the Canada West Coast Navigation Company, which was incorporated in 1916 to operate a fleet of wooden auxiliary schooners in the Australian timber trade, see L A C, RG 95, vol. 2689, Letters Patent, 28 June 1916; *CRMW*, (September, 1916; February, 1917; and August, 1917); and G. W. Taylor, *Shipyards of British Columbia: The Principal Companies* (Victoria, BC, 1986), 86-89.

<sup>32</sup> L A C, RG 95, vol. 948, Steam Navigation Company of Canada file; Salmon, "Scapegoats and Opportunists;" and for freight rates not covered by Imperial government Blue Book rates see, C. Ernest Fayle, *The War and the Shipping Industry* (London, 1927), 453.

<sup>33</sup> MMK, CSL, 996.39.6, minute book, 13 November 1917 and 11 December 1917. The six canallers were acquired from the Merchant's Mutual Line 993.2.157, *Annual Report*, 1917.

<sup>34</sup> MMK, CSL, 996.39.6, minute book, 12 June 1917, and 11 December 1917. For the ownership of the Malahat Motor Ship Company see British Columbia Archives, Register of Companies, GR 1526, reel B5143, Malahat Motor Ship Company, Limited file, Certificate of Incorporation, 15 February 1917, and "Return of Allotment," 15 June 1917.

<sup>35</sup> MMK, CSL, 996.39.6, minute book, 12 June 1917, 13 November 1917, 20 November 1917, and 11 December 1917.

the sale of assets. These actions brought to a head a simmering dispute between the president, James Carruthers and the managing director, James Norcross with Norcross emerging victorious. Morden, Norcross and Wolvin now had unfettered control of the company.<sup>36</sup> The direction they chose for CSL was to have disastrous results.

The company now acquired eight more ocean going vessels at a cost of \$8,000,000. It then created a joint trans-Atlantic service with La Compagnie Générale Transatlantique. Members of the insider network profited handsomely from this investment. This was particularly true in CSL's purchase of an old CPR liner that had been rebuilt for the Steam Navigation Company by Halifax Shipyards Limited. Both firms were controlled by the network.<sup>37</sup> The *her Heath's* acquisition was made just before ocean freight began to fall.<sup>38</sup> The collapse of the shipping market also led CSL into an ill-advised bailout of the Davie Shipbuilding and Repairing Company at Levis, Quebec. This firm had gotten into difficulties when its president, and CSL's general counsel C. A. Barnard, had been caught manipulating its books to cover his personal speculations in lakers being converted to ocean service in 1919. This takeover cost CSL \$2,500,000.<sup>39</sup> Further transactions for the benefit of the network at the expense of the company followed. The most significant was the purchase of the MTC in 1921. For \$3,338,000 CSL acquired a motley collection of old wooden steamers and barges, the equally obsolete MTC grain elevators, and one modern laker. By 1925 only five of the twenty-nine MTC vessels were still operating for CSL.<sup>40</sup> The global shipping market collapsed as the Canadian economy went into a depression. The company's earnings fell as its costs rose leading to a severe decline in profit.

But the final blow to the insider network was of their own making as it attempted to add CSL to their grandest scheme, the British Empire Steel Company (Besco). While the company did meet its dividend payments on its preference shares a deficit position was only

<sup>36</sup> *Ibid*, 996.39.6, minute book, 3 September 1918, 5 November 1918, 12 November 1918, 3 December 1919, 14 January 1919, and 11 February 1919; London Advisory Committee Minutes, 7 December 1918, and 993.2.157, *Annual Report*, 1918. For the post-war continuation of the shipping boom see, D. H. Aldcroft, "Port Congestion and the Shipping Boom of 1919-1920," *Business History* 3, No. 2 (June, 1961), 97-106.

<sup>37</sup> MMK, CSL, 996.39.6, minute book, March 18 1919, and 15 April 1919; QUA, CSL, box 156, Compagnie Canadienne Transatlantique Ltee file, "Memorandum of Agreement between La Compagnie Générale Transatlantique and Canada Steamship Lines Limited," 25 June 1919; 996.39.46, "Preliminary Report" and Salmon, "Scapegoats and Opportunists."

<sup>38</sup> See Fayle, *The War and Shipping*, 381-382, 449 and 463; and W. J. Noble, "The Fall in Freights," in *Brassey's Naval and Shipping Annual, 1921-1922*. Alexander Richardson and Archibald Hurd. eds. (London, [1922]), 237-246.

<sup>39</sup> MMK, Davie Shipbuilding Limited fonds, 998.5, box 5, Report to Indemnifiers file; "Report of Proceedings in London - December 1920 to April 1921;" CSL, 996.39.46, "Preliminary Report;" and Eileen Reid Marci, *From Tall Ships to Tankers: The History of Davie Shipbuilders* (Toronto, 1997), 139-185.

<sup>40</sup> MMK, CSL, 996.39.46, "Preliminary Report;" QUA, CSL, box 117, "Valuation Report of the Montreal Transportation Company's Fleet," 1921.

avoided through the sale of assets. Minority shareholders objected loudly to the proposed Besco merger and the leading Canadian business journal, *The Financial Post* ran a series of exposés that revealed the network's inner workings.<sup>41</sup> Indeed, *The Financial Post* had brought to light the true nature of CSL. It was not a modern corporation with executive and management functions fully divorced from ownership but rather the firm was part of a larger investment network. This network was dominated by individual entrepreneurs for whom CSL was not an independent public entity; they treated it as one of their personal possessions.

Suddenly the insider network's strategy of an ever bigger steel, shipbuilding and shipping monopoly came tumbling down. With North America deep in a grip of depression CSL was unable to raise money after its Canadian underwriters were able to find buyers for only \$2,500,000 of \$6,000,000 worth of 7 per cent bonds.<sup>42</sup> Norcross spent most of the winter of 1921-1922 attempting to find financing to pay for the acquisitions and cover its debts. After the failure of the Canadian bond campaign and desperate to avoid bankruptcy the president travelled to New York cap in hand. A solution was found through the investment banker, Kissel, Kinnicutt, and the stockbrokers, Nesbitt, Thomson but the terms were drastic. The consulting firm of Coverdale and Colpitts were hired to investigate the company. In his report William Coverdale was scathing. To save the company, the insider network had to go, and corporate governance had to be completely overhauled. To effect this house cleaning Coverdale was appointed president with new financing to support the restructuring.<sup>43</sup>

As a result of its financial problems CSL found itself in a more difficult position than its two leading competitors in the Canadian Great Lakes bulk trades, Playfair's GLT and the Mathews Steamship Company. While both firms were originally much smaller than CSL they had profited immensely from the war and they were poised to expand.<sup>44</sup> Canadian

<sup>41</sup> MMK, CSL, 996.39.7, minute book, 29 April 1920, 12 July 1920, 24 July 1921 (Special General Meeting), 17 August 1921, 7 September 1921, and 21 February 1921, *The Financial Post*, 24 December 1920, 28 January 1921, 25 February 1921, 8 April 1921, 15 April 1921, 22 April 1921, 3 February 1922, 10 February 1922, and 17 February 1922, etc.; and Tom Traves, *The State and Enterprise: Canadian Manufacturers and the Federal Government, 1917-1931* (Toronto, 1979), 130-136.

<sup>42</sup> MMK, CSL, 996.36.7, minute book, 29 August 1921, Finance Committee minutes 1 September 1921, Finance Committee minutes 14 November 1921; and 993.2.157, *Annual Report* 1921.

<sup>43</sup> *Ibid*, 996.39.46, "Preliminary Report," 996.39.7, minute book, 10 January 1922, 17 January 1922, Finance Committee minutes, 10 February 1922, 24 April 1922, and particularly note Coverdale's address to the annual general meeting 16 May 1922; and 993.2.157, *Annual Report* 1922.

<sup>44</sup> Financial data for both the GLT and the Mathews Steamship Company is scarce. However, in 1919 the Mathews declared a 900 per cent capital dividend on its \$60,000 paid up capital, OCCR, DFC, file 33474, Mathews Steamship Company, "Petition of the Mathews Steamship Company, 23 December 1920, and "Prospectus," 19 September 1922. In 1917 the GLT paid a dividend of 50 per cent. In 1920 this was increased to 100 per cent paid out of the surplus account which was still left with \$969,000. The company's paid up capital

owners of canallers had done well during the war but they had also paid a price as many of these vessels had been lost or sold abroad. By 1920 the number and tonnage of canallers under Canadian ownership had fallen to 67 vessels of 106,000 tons, a decline of more than 40 per cent since 1914.<sup>45</sup> Between 1920 and early 1926 Playfair added eight lakers of 46,700 tons and 16 canallers of 28,500 tons to the GLT and its subsidiaries. And in 1925 he gained control of the Geo. Hall Coal and Shipping Corporation's (Halco) 15 canallers of 23,000 tons. Playfair thus owned more bulk canaller tonnage than CSL and his laker fleet was expanding faster and included newer tonnage than that of his bitter rival. Mathews also grew at a faster rate than CSL, adding four lakers of 24,900 tons and seven canallers of 13,000 tons. These investments were not financed out of earnings but rather paid for with bonds secured by vessel mortgages. This leverage made possible the expansion of Canadian Great Lakes shipping during the 1920s.<sup>46</sup>

While others could make up the shortfall in tonnage Coverdale was forced to follow a conservative investment policy during the 1920s. Ocean service was abandoned and CSL's older uneconomic vessels were disposed of. The company reported small operating profits for the years 1922 to 1925 but was unable to make payments on its preference shares so it remained in a deficit position.<sup>47</sup> However, during the winter of 1925-1926 Coverdale was presented with an opportunity that appeared too good to miss. Playfair's acquisition of (Halco) had not produced the returns expected and with his shipping network overstretched he decided that the time had come to sell off the business.<sup>48</sup> After attempting to peddle his laker tonnage to Norman Paterson, the Fort William grain dealer, Playfair then turned to CSL. A deal was quickly arranged. For the GLT's eleven lakers (including one under construction) and one canaller, a grain elevator and a coal dock at Midland, Ontario CSL paid \$6,000,000 cash. Halco was acquired for \$4,015,000. In a separate transaction CSL also purchased Playfair's Midland Shipbuilding Company for \$2,000,000.<sup>49</sup> To finance these acquisitions and to cover the accumulated unpaid dividends on the company's preference shares, CSL increased its capitalization to \$40,800,000 by issuing \$2,500,000 more

was only \$504,000. State Archives of Michigan, Securities Commission Records, Great Lakes Transportation Company file, "Great Lakes Transportation Company Balance Sheet," 1917 and 1920.

<sup>45</sup> M. Stephen Salmon, "'Fool Propositions: ' Mackenzie King, the Dominion Marine Association and the Inland Water Freight Rates Act of 1923" *Fresh Water 2*, No. 1 (Summer 1987), 8; and Salmon "A Prosperous Season," 134.

<sup>46</sup> For Playfair's investments see, Salmon, "Enough Money." The laker tonnage includes one ship under construction in the winter of 1925-1926. Mathews' expansion in the 1920s is analysed in, Salmon, "Bankruptcy."

<sup>47</sup> MMK, CSL, 996.39.7, minute books, Coverdale's address to the annual general meeting 30 April 1926; and 993.2.157 *Annual Reports*, 1922 -1925.

<sup>48</sup> *Ibid.*, 996.39.1, Geo. Hall Coal & Shipping Corporation, "Report on Examination of Accounts, 31 December 1925. "

<sup>49</sup> *Ibid.*, 996.39.7, minute book, 30 March 1926, and Coverdale's address to the annual general meeting 30 April 1926.

preference shares to existing preference shareholders *in lieu* of the unpaid dividends, and converting the entire issue to 6 per cent from 7 per cent. The \$6,000,000 twenty year 7 per cent bonds issued in 1922 were called and replaced with \$ 18,000,000 fifteen year 6 per cent bonds. And to complete the overhaul of CSL's finances, the \$100 par value common stock was replaced with no par value stock thus allowing its value to be more accurately reflected on the company's books, (figure 3).<sup>50</sup>

CSL was now the undisputed leader in Canadian Great Lakes bulk shipping. Its profitability for the rest of the decade reflected this new found strength. Increases were shown in every year from 1926 to 1928. But the good times did not last as the record grain harvest of 1928 led to a glut in the market for Canadian grain. As the grain piled up in Montreal's terminal elevators during the spring of 1929 canallers were unable to unload their cargoes. This congestion soon backed up the entire system and freight rates fell. By May 1929 grain had stopped moving from the Lakehead. The crisis was made worse because shipowners had ordered thirty additional canallers from British shipyards during the previous winter. The Great Depression had begun on the Great Lakes six months before the stock market crash.<sup>51</sup> After paying the dividend on its preference shares CSL showed a loss in 1929 ending the decade with a surplus account of only \$1,820,000.<sup>52</sup> Worse was yet to come.

As the depression deepened the losses piled up. All types of earnings declined precipitously with grain and passenger earnings suffering the most. From 1929 to 1935 gross earnings averaged only 55 per cent of what they had in the peak year of 1928. The last dividends on the preference shares were paid in July 1930. CSL was unable to make the sinking fund payments on the 5 per cent debentures from October 1931. The bond interest was passed beginning in April 1933. In the same month a Bondholders Protective Committee was formed. By end of 1935 the company had lost \$12,271,000 and there appeared no end in sight to the hard times. CSL was effectively bankrupt. The company had been kept afloat by the benevolence of its bankers who realized that they could not afford to see the company fail.<sup>53</sup> Finally, after much negotiation among various groups of creditors and CSL, a complete refinancing plan was agreed upon. Under the court ordered "Modified General Plan of Reorganization" the company wrote off one-third of its assets by redeeming the outstanding 5 per cent debentures, replacing the 6 per cent bonds and 6 per cent

<sup>50</sup> *Ibid.*, minute book, special general meetings, 9 June 1926, and 30 September 1926, 993.2.157, *Annual Report*, 1926. CSL's common stock had traded in range from \$11.00 to \$15.00 before the announcement of the Playfair acquisitions, W. R. Houston, comp., *The Annual Financial Review Canadian, XXVII*, (Toronto, 1927), 245-248.

<sup>51</sup> *CRMW*, (June 1929); Salmon, "Rank Imitation," 12; and Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919-1939* (New York, 1992), 222.

<sup>52</sup> MMK, CSL, 993.2.157, *Annual Report* 1929.

<sup>53</sup> *Ibid.*, 996.39.8, minute book, 12 February 1932, 2 September 1932, 30 March 1933, annual general meeting 24 April 1933, 24 October 1933; and 993.2.157 *Annual Report* 1935.

## Canada Steamship Lines: Capital Structure, 1926-1945

<b>1926</b>	
<b>Security</b>	
	(\$000's)
5% Debenture/Bonds	4,617
6% Cumulative Preference Shares (\$100 par value)	15,000
6% First and General Mortgage Bonds	18,000
Common Shares (12,000,000 no par value)	3,082
Debenture Notes	<u>125</u>
<b>Total</b>	<b>40,824</b>

<b>1937</b>	
<b>Security</b>	
	(\$000's)
5% Preference Shares (229,500 shares cumulative from 1 January 1943, \$50 par value)	11,462
5% First Mortgage Bonds	10,500
Common Shares (300,000 no par value)	3,391
6% Kingston Elevator Bonds	<u>1,310</u>
<b>Total</b>	<b>26,663</b>

<b>1945</b>	
<b>Security</b>	
	(\$000's)
5% Preference Shares (229,500 shares cumulative from 1 January 1943, \$50 par value)	11,462
3W/o First Mortgage Serial Bonds	3,600
3W/o First Mortgage 12 Year Bonds	4,500
Common Shares (300,000 no par value)	3,391

Figure 3, from MMK, CSL, minute books, and *Annual Reports*. *preference* stock with 5 per cent

preference stock with 5 per cent bonds and 5 per cent preference stock, and issuing new common stock in place of the old.<sup>54</sup> Accompanying the financial reorganization \$ 10,750,000 was written off the value of the fleet. This action was followed by a culling of the fleet with twenty-four obsolete vessels going to the breaker's yard. The new financial plan also freed CSL to eliminate, The Tree Line Navigation Company, its only significant competitor in the Montreal - Lakehead package freight service. Tree Line was a subsidiary of Ogilvie Flour Mills and as part of the purchase agreement CSL entered into a long term contract to carry the miller's flour and grain. The five canallers cost the company \$225,000 payable in cash and short term notes.<sup>55</sup>

The results of the reorganization on CSL's balance sheet were dramatic. Although 1937 was not a good year in the grain trade the company showed its first profit since 1928. There were marginal improvements in its position in each year up to 1939. The Second World War then ushered in the best years CSL had ever had. Despite disrupted shipping schedules, the loss of canallers for overseas duty and increased income taxes, CSL under Coverdale was determined that the new conflict was not to be a repeat of the Great War. And indeed it wasn't, as every war year was profitable. Much of CSL's prosperity was due to the activities of its Davie Shipbuilding subsidiary.<sup>56</sup> By 1944 the company had built up a surplus account of \$3,000,000. In March 1945 it refinanced its 1937 5 per cent bonds at 3 1/2 per cent. Then in October the company purchased 80 per cent of the outstanding shares of Canadian Shipbuilding and Engineering Limited from the estate of Roy Wolvin. Canadian Shipbuilding owned shipyards at the Lakehead, Collingwood, Midland, and Kingston. CSL now had a virtual shipbuilding monopoly on the Canadian side of the Great Lakes.<sup>57</sup>

The war was a turning point in the company's history. From September 1939, CSL became and remained a successful profitable firm supported by a growing economy and government policy directed towards ensuring that the Great Depression would never be repeated. Shortages of steel restricted the ordering of new lakers until 1948 when two lakers were contracted to company shipyards. Both of these vessels were ordered before accelerated depreciation was allowed. These were followed by five more lakers before the opening of the seaway in 1959. Post-war Canadian inflation was illustrated in the cost of

<sup>54</sup> MMK, CSL, 996.39.8, minute book, 13 April 1936, 14 April 1936, 30 June 1936, 30 September 1936, 14 October 1936, special general shareholders meeting 21 January 1937, and [Canada Steamship Lines] to "The Holders of First and General Mortgage 6 per cent Gold bonds [et al]" 1 December 1936, T, Bradshaw, Chairman, Bondholders Protective Committee, to Canada Steamship Lines, 26 November 1936.

<sup>55</sup> MMK, CSL, 996.39.8, minute book, 1 March 1936, and 12 April 1936.

<sup>56</sup> *Ibid.*, minute book, annual general meeting, 23 April 1941, 22 April 1942, 28 April 1943, 26 April 1944, and 25 April 1945.

<sup>57</sup> *Ibid.*, minute book, 15 March 1945, and 24 October 1945.

these vessels which ranged from \$253 a ton in 1948 to \$355 a ton in 1954.<sup>58</sup> In anticipation of the opening of the St Lawrence Seaway, CSL also began modernizing its package freight services with the building of a prototype in 1955 that was larger and faster than its pre-depression ancestors. This was done after a detailed study showed that a new 460-foot vessel could expect to earn 70 per cent more before depreciation than the company's most modern laker sized package freighter. Expectations on the new *Fort Henry* were fully met in its first year of operation even while its activities were confined to the Great Lakes proper.<sup>59</sup> Two more package freighters were added in 1958 and 1959. After a disappointing return to pre-war normalcy in 1946, profits also kept pace. To finance this expansion new 4 per cent bonds were issued in 1948 followed by 2 1/4 per cent bonds in 1954, (figure 4). And in that year CSL's Letters Patent were amended to allow a stock split of four to one for both preference and common shares. Then, finally in 1957 a further 800,000 additional common shares were authorized but not immediately issued.<sup>60</sup>

The war also saw the beginning of changes in CSL that would eventually lead to control of the company falling into the hands of one aggressive entrepreneur. In 1944 Sir James Dunn, president of Algoma Steel Corporation was appointed to the shipping company's board of directors. Not surprisingly, Dunn objected to CSL's long standing relationship with Stelco.<sup>61</sup> After Coverdale's death in August 1949 the steel magnate moved to take control of the company and by April 1951 he had succeeded. Dunn then proceeded to place his stamp on CSL with a house cleaning of senior management and with the appointment of new president, T. R. McLagan. The new man was hand picked for the job by C. D. Howe, the Federal Minister of Trade and Commerce. McLagan thus symbolized the national significance of CSL and by extension the place of Great Lakes shipping in the Canadian economy. And despite Dunn's reputation for hands on leadership, McLagan was allowed to run CSL as an independent entity.<sup>62</sup>

The fourteen years from the end of the war until the opening of the seaway were ones of unprecedented prosperity for CSL. Earnings grew from \$1,873,000 in 1946 to \$15,055,000 in 1959. The only blemish on this record was the decline in CSL's passenger

<sup>58</sup> *Ibid.*, 993.2.54, Hull Cost Statements file, "Cost Statement -Ship #144 S.S. *Hochelega*" and "Ship No. 37 - Bulk Freighter [*T. R. McLagan*]:' The 11,996 tons *Hochelega* cost \$3,042,000 while the 15,500 ton *T. R. McLagan* cost \$5,502,000.

<sup>59</sup> *Ibid.*, 996.39.8, minute book, 3 August 1954, "Report on proposal to build a Package Freighter," n.d., and annual general meeting, 30 April 1956.

<sup>60</sup> *Ibid.*, minute book, special general meeting 15 February 1954, and special general meeting, special general meeting 6 August 1957.

<sup>61</sup> *Ibid.*, minute book, 28 January 1948; and Duncan McDowell, *Steel at the Sault: Francis H. Clergue, Sir James Dunn, and the Algoma Steel Corporation 1901-1956* (Toronto, 1984), 241.

<sup>62</sup> McLagan had been president of Canadian Vickers. M M K, CSL, 996.39.8, minute book, 24 August 1948, 30 April 1951, 30 May 1951, 27 June 1951; and McDowell, *Steel at the Sault*, 242.

**Canada Steamship Lines: Capital Structure, 1948-1959**

<b>1948</b>	
<b>Security</b>	
	(\$000's)
5% Preference Shares (229,500 shares cumulative from 1 January 1943, \$50 par value)	11,462
2H% First Mortgage Serial Bonds	2,400
3W/o First Mortgage 12 Year Bonds	4,500
4% First Mortgage Bonds	3,000
Common Shares (300,000 no par value)	3,391
<b>Total</b>	<b>24,753</b>

<b>1954</b>	
<b>Security</b>	
	(\$000's)
5% Preference Shares (229,500 shares cumulative from 1 January 1943, \$50 par value)	11,462
3^% First Mortgage 12 Year Bonds	4,500
4% First Mortgage Bonds	3,000
2'4% First Mortgage Bonds	1,665
Common Shares (300,000 no par value)	3,391

<b>1959</b>	
<b>Security</b>	
	(\$000's)
5% Preference Shares (229,500 shares cumulative from 1 January 1943, \$50 par value)	11,462
4% First Mortgage Bonds	1,280
Common Shares ( 1,234,000 no par value)	4,221

Figure 4, from MMK, CSL, minute books, and *Annual Reports*.service. This business had been

service. This business had been hit hard by the depression and it did not recover to the same level as the bulk or package sectors during the war. Post-war, the company's passenger vessels suffered a series of disasters culminating in 1949 with the burning of the *Noronic* in Toronto harbour. One hundred and eighteen passengers died in the fire. CSL was found at fault by the investigating commission. This bad publicity combined with the triumph of the automotive revolution destroyed the company's prospects for the tourist trade on the Great Lakes and upper St Lawrence River. However, CSL continued to operate passenger ships from Montreal to its hotels at Tadoussac and Murray Bay until 1965.<sup>63</sup>

The opening of the St Lawrence Seaway in 1959 found CSL a prosperous transportation enterprise that had evolved well beyond the financially feeble giant of 1913. While no more a quasi-monopoly it was a modern corporation with management divorced from ownership. CSL was almost self-financing with new assets being purchased out of earnings. Its surplus account totalled more than \$33,000,000.<sup>64</sup> With its ties to the Canadian economic heartland, the company had finally fulfilled the promise of its promoters. Christopher Furness would have appreciated the development of CSL.

#### PATERSON STEAMSHIPS LIMITED

By 1922 Norman Paterson was a successful grain dealer from Fort William, Ontario who through his firm, N. M. Paterson and Company, owned 88 country elevators and a 1,100,000 bushel terminal elevator at the Lakehead. Before 1923 he had dabbled in shipping.<sup>65</sup> Paterson's initial impetus for investing in Great Lakes shipping came in 1922 as result of the inflated freight rates forced on grain shippers by an alleged combine of Great Lakes shipowners. Summer rates ranged as high as 11.50 per bushel to Georgian Bay ports compared to the previous year's average of 2.960. The subsequent Royal Commission setup to investigate Great Lakes grain rates only further publicized the "profits" made by the industry "combine."<sup>66</sup> Faced with the prospect of having to continue to pay high rates in 1923 and also tempted to cash in on their profitability, Paterson purchased two ships from

<sup>63</sup> *Ibid.*, minute book, 30 November 1949, 28 December 1949, and 25 January 1950; 993.2.64, "Analysis of Passenger Steamer Operations [1927-1940];" and Edgar Andrew Collard, *Passage to the Sea: The Story of Canada Steamship Lines* (Toronto, 1991), 236-240, and 343-345.

<sup>64</sup> MMK, CSL, 996.39.8, minute book, annual general meetings 28 April 1959, and 25 April 1960; and 992.2.157, *Annual Report* 1959.

<sup>65</sup> Paterson's business career is best followed in, David Trembley, *How Great the Harvest Is* (Erin, ON, 1984); and for a popular photographic history of the Paterson owned ships see, Gene Onchulenko and Skip Gillham, *The Ships of the Paterson Fleet* (St. Catharines, ON, 1996).

<sup>66</sup> QUA, CSL, box 3, "Report on Transactions between Canada Steamship Lines Limited and Standard Shipping Company Limited for the year ending 31<sup>st</sup> December 1922," and Canada, *Report on the Grain Trade of Canada* (Ottawa, 1923). For the Royal Commission on Lake Rates on Grains and Insurance see, Salmon, "Fool Propositions."

the Canadian Government Merchant Marine (CGMM) in August 1923. These second-hand vessels came at the reasonable cost of \$220,000 on easy terms. They were also profitable earning 24 per cent on their down payment during the first year followed by 17 per cent in 1924-25. This performance only whetted his appetite for more tonnage which was only partly satisfied with the acquisition of two more CGMM vessels in 1925. These ships were canal sized ocean going tramps. They were relatively inexpensive but such ships were not well suited to the Great Lakes bulk trades.<sup>67</sup> Then at the annual meeting of the Dominion Marine Association in January 1926, James Playfair offered to sell Paterson his Great Lakes network. However, the two could not agree on a price and Playfair began negotiating with CSL. Faced with a virtual monopoly Paterson began to scour the Lakes for any available laker tonnage. A subsidiary, styled Paterson Steamships Limited, was organized to operate the grain company's ships. Paterson Steamships was capitalized at only \$220,000. The 2,200 shares being issued in payment for the four vessels transferred from the parent grain company.<sup>68</sup> Between January and March, Paterson had arranged a deal to purchase seven second-hand lakers from the Interlake Steamship Company of Cleveland for \$1,380,000. In addition a smaller laker, the *Kamaris*, was acquired from the trustees of the bankrupt Minto Trading Company for a mere, \$58,500. In October four more lakers were purchased at a cost of \$899,000 from Interlake Steamship. Only the smaller laker was paid for entirely in cash. The Interlake vessels were financed with a combination of 50 per cent cash and 6 per cent mortgages to the former owners totalling \$1,180,000. The term for the first seven lakers was three years and the second group of four vessels were to be paid off in four years.<sup>69</sup>

These twelve vessels which had been built between 1890 and 1903 had an average grain capacity of 240,000 bushels. This compared to CSL's, ex-Playfair lakers that had an average grain capacity of 295,000 bushels. But Paterson's ships had cost only \$45 per ton compared to \$61 for the CSL purchase. At one stroke Norman Paterson had increased the Canadian laker fleet's lifting capabilities by 20 per cent. His defensive acquisitions set off a canaller building boom that only ended with the onset of the Great Depression.<sup>70</sup>

<sup>67</sup> LAC, PA, Reg. No. 2002-0778, box 630, M. N. Paterson and Company, Limited, "Report on Audit for the Year ended 31<sup>st</sup> July 1924," and Report on Audit for the Year ended 31<sup>st</sup> July 1926." The *Canadian Engineer* and the *Canadian Pathfinder* cost \$50,000 each, PA, box 544, *Canadian Engineer* "Bill of Sale," 9 October 1925, and *Canadian Pathfinder* "Bill of Sale," 9 October 1925.

<sup>68</sup> *Ibid.*, box 470, Paterson Steamships Limited minute book, Letters Patent, 10 February 1926; "Memorandum of Agreement between N. M. Paterson & Co. Limited and Paterson Steamships Limited," [3] March 1926.

<sup>69</sup> *Ibid.*, box 470, minute book, "Indenture between Paterson Steamships Limited and The Interlake Steamship Company," [25 March 1926]; 1 April 1926; and box, 626 Paterson Steamships Limited, "Report on Audit" 1926. In August Paterson Steamships had purchased a second-hand canaller for \$50,000, "Report on Audit," 1926.

<sup>70</sup> Salmon, "Enough money;" and for grain capacities see, Canada, The Senate, *Proceedings of the Standing Committee on Banking and Commerce on Bill J-An Act Respecting Shipping in Canada*, No. 4 (Ottawa, 1933), 138-139.

To balance the lakers Paterson began adding modern canallers to his holdings. From 1927 to 1929 eighteen canallers were purchased from the British builder Swan Hunter at a total cost of \$3,119,000. The ships were secured on good terms with the builder holding the mortgages. By the end of 1929 Paterson Steamship controlled 31 vessels of 86,641 tons.<sup>71</sup> As long as grain shipments continued to increase, the future looked bright for the second largest shipowner on the Canadian side of the Great Lakes. Then the grain blockade in the spring of 1929 that ushered in the Great Depression on the Great Lakes scuttled the promise of Paterson's investments. A reported loss of more than half a million dollars turned the steamship company's surplus account into a deficit account. As the crisis became a seemingly permanent economic reality in 1930 Paterson was forced to go cap in hand to Swan, Hunter to negotiate a new deal. His steamship company still owed the builder more than two million dollars on the canallers with no prospect of being able to meet the mortgage payments. He personally guaranteed the steamship company's obligations, but by the end of the year it was \$462,000 in arrears to Swan Hunter. Paterson Steamship's policy now became, "to make payments on the foregoing amounts [owed to the mortgage holders] as future earnings warrant."<sup>72</sup> But as economic conditions worsened even Paterson's personal notes to Swan, Hunter could not be honoured.

Having sold more than 55 canallers to Canadian owners on easy terms between 1923 and 1929, the British shipbuilder took some responsibility for the glut of tonnage on the Great Lakes. Through its representative in Montreal, J. Arthur Mathewson, Swan, Hunter attempted with very modest success to enforce a bulk trades conference. Plans to stabilize rates fell apart time after time because owners were frantic for any contract at any price.<sup>73</sup> Paterson kept the steamship company afloat through loans from the grain company and his own personal account, but in fact all was done at the sufferance of the Dominion Bank to which he had pledged many of his more profitable shares in his stock portfolio. By the spring of 1931, after the bankruptcy of the Mathews Steamship Company, everyone in Great Lakes shipping and their bankers realized the seriousness of the situation.<sup>74</sup> The industry was sustained by its creditors' understanding that there was nothing to be gained by

<sup>71</sup> L A C , box 470, PA, minute book, 4 April 1927, 20 January 1928, and 7 May 1929; and box 626, "Report on Audit," 1929.

<sup>72</sup> *Ibid.*, "Report on Audit," box 626, 1930; and box 470, minute book, 28 October 1930.

<sup>73</sup> *Ibid.*, box 1,7. Arthur Mathewson file, N. M. Paterson to J. Arthur Mathewson, 13 May 1932; Rate Agreement file, [Memorandum by J. Arthur Mathewson], 15 June 1932, N. M. Paterson to T. R. Enderby, [telegram], 18 June 1932, 18 June 1932 and N. M. Paterson to T. R. Enderby, 20 June 1932; and M M K , George R. Donovan, "Report to Associated Lake Freighters, Limited," 23 May 1933.

<sup>74</sup> L A C , PA, box 2, Dominion Bank file, N. M. Paterson to R. K. Beairsto, Manager, [Dominion Bank, Winnipeg] enclosing hypothecation of shares "Agreement between Norman M. Paterson and The Dominion Bank," 15 September 1931. The unsecured creditors of the Mathews Steamship company eventually received three cents on the dollar, see Salmon, "Bankruptcy."



The canaller *Lawrendoc*, built for Paterson by Swan Hunter & Wigham Richardson at Wallsend, England in 1929. The collapse of freight rates during the depression made it difficult to pay off the builder's mortgage for this and the other vessels that had been recently built.

foreclosing on the shipping companies. Eventually Paterson was reduced to sending Mathewson his monthly canaller statements with detailed explanations on an item by item basis along with a covering cheque in a not always successful attempt to meet the interest on the mortgage. It was as he noted after another telegram from Swan, Hunter, "useless to be hounding me in this way as I am doing the best I can."<sup>75</sup>

Paterson was reduced to juggling his accounts from one of his businesses to the next. He was robbing the parent grain company's cash account in a fruitless attempt to keep up a semblance of payments on the vessel mortgages, thus threatening the liquidity necessary to continue grain trading. By September 1934 he was paying out more on interest

<sup>75</sup> *Ibid.*, box 4, J. Arthur Mathewson file, J. Arthur Mathewson to N. M. Paterson, 24 June 1933, N. M. Paterson to J. Arthur Mathewson, 29 June 1933, and J. Arthur Mathewson to N. M. Paterson, 21 December 1933, N. M. Paterson to J. Arthur Mathewson, 26 December 1933; and box 626, "Report on Audit" 1933.

than the steamers were earning and the principal remained untouched.<sup>76</sup> Efforts to raise freight rates continued without success, but finally in December Paterson scrapped together \$15,000 to be taken off the principal. However before the opening navigation in 1935 matters deteriorated to the point that Swan, Hunter had to pay a portion of the insurance on the canallers.<sup>77</sup> Efforts continued without much success to set up a bulk carrying conference. Time and time again the owners meetings ended in seeming agreement only to have the rate structure collapse. As one small operator wrote to T. R. Enderby of CSL in 1937, "At the proposed meeting there will likely be present owners or managers who in former cases gave their word and signed an agreement to maintain rates and broke both their word and written bond. I am doubtful, therefore, whether you can expect any different result now."<sup>78</sup> Finally in 1937, Paterson travelled to Britain and negotiated a new deal with Swan, Hunter. Under this arrangement he committed to making four payments totalling £120,000 over two years with the interest rate temporarily reduced to *VA* per cent. This he was unable to do in 1937 despite having posted a small net profit. The firm also received a bonus from the tragic loss of the canaller *Calgadoc*, when the insurance payment came in at more than the vessel's book value.<sup>79</sup> One of the stumbling blocks to the successful self-regulation of the industry became CSL's decision not to continue its support for rate setting by the Canadian Lake Carriers Association. Initially the Montreal based firm was a whole hearted supporter of controls but after it straightened out its own finances CSL became harder to deal with. By 1938 it was not part of the arrangement worked out among Paterson and Scott Misener and number of other shipowners.<sup>80</sup> Slowly however, the situation was improving. In 1938 Paterson Steamships posted another profitable year and \$220,000 was paid off the Swan, Hunter mortgages. Still the shipping firm required advances of almost \$1,500,000 from its parent firm to operate.<sup>81</sup> In the spring of 1939 Paterson seemed confident enough in the future to make his first vessel purchase since 1929 with the acquisition of three canallers

<sup>76</sup> *Ibid.*, box 5, J. Arthur Mathewson file, N. M. Paterson to J. Arthur Mathewson, 29 March 1934, N. M. Paterson to J. Arthur Mathewson, 2 June 1934; and Dominion Bank file, N. M. Paterson to R. K. Bearsto, 7 September 1934.

<sup>77</sup> *Ibid.*, box 5, J. Arthur Mathewson file, N. M. Paterson to J. Arthur Mathewson, 17 December 1934, and box 8, J. Arthur Mathewson file, N. M. Paterson to J. Arthur Mathewson, 18 February 1935, and J. Arthur Matheson to N. M. Paterson, 4 March 1935.

<sup>78</sup> MMK, CSL, 993.2.1, Lake Freight Association file, R. A. Carter to T. R. Enderby, 3 June 1937. For the Lake Freight Association's rate structure see, *Ibid.*, J. R. Doherty, Manager, Lake Freight Association, to Members, Lake Freight Association enclosing "General - Rules and Regulations," 4 January 1935.

<sup>79</sup> LAC, PA, box 470, N. M. Paterson diary, 12 April 1937, and box 626, "Report on Audit," 1937; and Brian Hallett, "'Lost Without Trace:' Canadian Archival Clues to Marine Disasters," *Archivaria* No. 12, 26-29.

<sup>80</sup> *Ibid.*, box 14, J. Arthur Mathewson file, N. M. Paterson to J. Arthur Mathewson, 20 September 1938; and MMK, CSL, 993.2.1, Lake Freight Association file, C. D. Howe, Minister of Transport, to Tom [R. Enderby], 3 June 1937.

<sup>81</sup> *Ibid.*, box 626, "Report on Audit," 1938.

from the Union Transit Company. The vessels cost the firm \$210,000 with a \$50,000 down payment and the remainder covered by a 5 per cent three year mortgage.<sup>82</sup> Although he temporarily regretted the transaction because the season did not begin well, Paterson approached Swan, Hunter to clear up the debt entirely. The British shipbuilder did not immediately accept his offer figuring that it could hold out for a complete repayment. However, the outbreak of war in September completely changed the situation. Upper lakes grain rates immediately improved and suddenly there was demand for ships of all types. While the now regular remittances were momentarily delayed by Canadian foreign exchange controls and by the need for the parent grain company to show a liquid cash position at the end of the year, a solution was at hand. By the end of 1940 the mortgage was entirely paid off the deficit account was reduced by more than 80 per cent.<sup>83</sup>

While the shipping crisis created by the Second World War was profitable for Paterson's the 1930s left a legacy of caution that was to influence the company's investment strategy until after the opening of the St Lawrence Seaway in 1959. As it argued to the federal tax authorities, "the Capital of the Company was entirely depleted by the losses from operating" during the Depression.<sup>84</sup> The war changed the deficit account into a surplus account by the end of 1941. Part of this profit was the result of the Allies requisition of all suitable tonnage. Paterson's contributed six canallers when the Canadian government acquired the vessels for the American War Shipping Administration. They eventually paid the company 525 per cent of the vessels book value.<sup>85</sup> But if the war saved Paterson Steamships from oblivion this salvation came at a high price. It lost fourteen of its canallers to war related causes: six were sold, eight were sunk by enemy action, and one was lost to marine hazard in the Carribean, with a total loss of fifty-eight lives.<sup>86</sup> In spite of adding two old lakers and a canaller in 1945 Paterson's ended the war asset poor and cash rich. In the next four years the company was to put that surplus to good use.

During the immediate post-war period Paterson's foraged for tonnage wherever it could find it. It added six canallers of 12,000 tons and five lakers of 18,000 tons by 1949.

<sup>82</sup> *Ibid.*, box 544, Mortgage: National Trust & Union Transit Company file, Geo. R. Donovan to N. M. Paterson [telegram], 18 January 1939, Paterson Steamships Limited to Union Transit Company Limited, 18 January 1939, Mortgage between Paterson Steamships Limited, National Trust Company Limited, and Union Transit Company Limited, 1 April 1937.

<sup>83</sup> *Ibid.*, box 16, Steamer Loan file, N. M. Paterson to J. W. Elliott, Swan, Hunter & Wigham Richardson, 23 June 1939, J. W. Elliot to N. M. Paterson 31 August 1939, N. M. Paterson to J. W. Elliot, 2 November 1939, and N. M. Paterson to J. W. Elliot, 14 December 1939; and box 629, "Report of Audit," 1940.

<sup>84</sup> *Ibid.*, box 626, Paterson Steamships, Limited, "Application for determination of Standard Profits in Accordance with Section 5, Excess Profits Tax Act, 1940," 2 February 1942.

<sup>85</sup> *Ibid.*, box 544, "Agreement between His Majesty the King and Paterson Steamships Limited," 19 January 1944; and box 629, "Report on Audit," 1943.

<sup>86</sup> Trembley, *How Great*, 73-77; and Onchulenko and Gilham, *The Paterson Fleet*, 61.

Four of the seven lakers acquired between 1945 and 1949 were barges, with an average age of 50 years when purchased. However, these second-class assets came relatively cheaply at \$27 a ton compared to powered lakers at \$57 a ton. The second-hand canallers were much more expensive at \$106 a ton.<sup>87</sup> This period was the most profitable in the company's history, finally rewarding Paterson's optimism of the late 1920s. The founder's two sons, Donald and John. Paterson, join the family business in this period. Meanwhile, N. M. Paterson, who had been made a Senator in 1940, was now 62 and gradually withdrawing from the firm. In 1950 the shipping and grain businesses were merged, the enterprise being named N. M. Paterson and Sons Limited. The new firm was divided into a grain division and steamship division.<sup>88</sup>

The Canadian post-war economy boomed and Paterson's shipping profits kept pace. Compared to the other large Canadian shipowners, who in anticipation of the opening of the seaway, invested heavily in modern lakers, Paterson's purchases were limited to two new lakers and a wartime tank landing ship converted to a paper carrier. This cautious strategy was a legacy of the company's performance during the Great Depression. It was better to run old ships than to incur a heavy mortgage load that held all assets hostage. The company was still short of canallers which were a necessary requirement until 1959. So it was forced into making further investments. Ten canallers were acquired between 1950 and 1958. Such was the demand for tonnage that three of them were expensive new ships costing \$3 74 a ton. This compared with the cost of the two new lakers at \$432 a ton. Paterson did take advantage of the accelerated depreciation allowed under the income tax regulations to help reduce its income tax payments.<sup>89</sup> In the short run Paterson's strategy of risk aversion paid off. Profits from the steamship division were high from 1950 to 1959. Indeed, in five of the ten years they exceeded those generated by the grain division. In the other five years it was the accelerated depreciation that enabled the steamship division to show a loss.<sup>90</sup> Thus the situation was reversed from the 1930s when Paterson Steamship's parent N. M. Paterson and Company had to provide the shipping operation with working capital. Now the steamship division became the most significant part of the business.

In many ways the performance of Paterson Steamships, and later the steamship division of N. M. Paterson and Sons Limited, reflects the entire Canadian Great Lakes shipping industry from the mid-1920s to the opening of the St Lawrence in 1959. While Norman Paterson initially entered the shipping market for defensive reasons he soon became

<sup>87</sup> L A C, P A, box 629, "Report on Audit," 1945 to 1949.

<sup>88</sup> Trembley, *How Great*, 79, 99-115.

<sup>89</sup> L A C, P A C, box 630, N. M. Paterson & Sons Limited, "Report on Audit," 1954 to 1958; and M M K, C S L, 993.2.54, Hull Cost Statements file, "Port Arthur Shipbuilding Company Limited, Cost Statement - Ship No. 113," and "Collingwood Shipyards Division of Canadian Shipbuilding & Engineering, Limited, Ship No. 159 - Bulk Freighter."

<sup>90</sup> L A C, P A, box 630, "Report on Audit" 1950 to 1959.

caught up in the enthusiasm of the boom he had helped to spark. He was thus over leveraged when the Great Depression devastated the sector. Paterson Steamships only survived because of a unique combination of Norman Paterson's ability as a grain trader that permitted him to at least cover a portion of the payments to the mortgage holder, Swan, Hunter, and the British shipbuilder's reluctance to call in that under serviced debt. Foreclosing on Paterson's canaller mortgage would have left Swan, Hunter with eighteen new ships that were worth little more than scrap value in the Depression. Paterson and the rest of the sector were saved by the Second World War and its insatiable demand for tonnage. The post-war boom in the Canadian economy, combined with government regulation designed to prevent another Great Depression, to make the fifteen years from the end of the war to the opening of the seaway the most profitable period ever for the Canadian Great Lakes shipping industry. However, Paterson's hard earned lessons from the Great Depression were passed on to his sons with the result that the family firm did not allow itself to take full advantage of the Canadian government's new maritime policies. Nevertheless, the expanding North American economy of the 1950s made the decade it the most successful for the Paterson shipping business.

#### QUEBEC AND ONTARIO TRANSPORTATION COMPANY

The Quebec and Ontario Transportation Company was a subsidiary of the Ontario Paper Company which itself was a subsidiary of the Tribune Company, publisher of the *Chicago Tribune*. The editor of the *Tribune* and controlling partner of the Tribune Company from 1911 to 1955 was the legendary media figure Robert R. McCormick<sup>91</sup>. Ontario Paper was established in 1912 with the construction of a mill at Thorold, Ontario on the Welland Canal to supply the newspaper with a reliable supply of newsprint at prices not subject to market fluctuations. The mill site on the Welland Canal was chosen because of its proximity to Niagara Falls and cheap hydro-electric power. However, the mill was 800 miles from the company's timber limits on the lower North shore of the St Lawrence River, east of Quebec City.<sup>92</sup> To move the pulpwood to the mill, a shipping firm, the Ontario Transportation & Pulp Company, was established in 1914. The name was changed in 1923 to the Chicago Tribune Transportation Company and finally in 1928 to the Quebec and Ontario Transportation Company. The Q & O ceased operations in 1983.<sup>93</sup>

<sup>91</sup> See, Richard Norton Smith, *The Colonel: The Life and Legend of Robert R. McCormick, 1880-1955* (New York, 1997).

<sup>92</sup> Smith, *The Colonel*, 135-136; and Carl Weigman, *Trees to News: A Chronicle of the Ontario Paper Company's Origin and Development*, (Toronto, 1953), 15-39.

<sup>93</sup> LAC, Quebec and Ontario Paper Company fonds (QUNO), R 6120, interim box 540, file 6, The Ontario Transportation and Pulp Company, Limited, "Letters Patent," 14 January 1914; interim box 539, file 8, "Supplementary Letters Patent," 5 April 1923; interim box 539, file 9, "Supplementary Letters Patent," 21

While both the Q. & O. and Paterson Steamships were subsidiaries of larger firms, the Q. & O. was a much smaller cog in its parent's enterprise. When it came to transporting pulpwood and newsprint the company did not do so in an open market. Rather the freight rates the Q. & O. earned moving these commodities were intra-company transfers from its parents. This compares to Paterson's operations in the open market. The Q. & O.'s subsidiary status is reflected in its financing. Initially, the company was capitalized at a mere \$10,000. The actual financing of vessels and operations coming from the Tribune Company in the form of mortgages and non-interest paying notes. In 1943 capital was increased to \$280,000 by issuing a dividend from the surplus account in the form of shares in the firm. This was done primarily for tax purposes.<sup>94</sup> Its first investments were modest, beginning with the charter of a small ocean going tramp, the *Honoreva* of 1,452 gross tons in 1913. The vessel was purchased in 1916 but then quickly traded to the GTL for the canaller *Toiler*. To fill Ontario Paper's requirements for pulpwood, the Q. & O. was forced by the wartime demand for steel ships into accepting a number of old wooden steamers and barges that were at best only second-class replacements. The little fleet carried pulpwood westward from Ontario Paper's Quebec timber limits and as a return cargo coal was shipped from United States' Lake Erie ports to Montreal. The profitability of the firm's operations were marginal at best and did not come close to fulfilling Ontario Paper's need for pulpwood.<sup>95</sup> Shipping the finished newsprint by rail from the Thorold mill to Chicago also presented problems. However, the search for lower freight rates by employing various Canadian and American package freighters under contract met with little success.<sup>96</sup> These operations were only a stop gap measure until the Q. & O. could put its activities on a more permanent basis.

The Q. & O. purchased its first new vessels in 1922, two canallers with greatly increased pulpwood capacity. With the new tonnage profitability was now influenced by the freight rates for other commodities, notably grain from Port Colborne to Montreal.<sup>97</sup> While the Q. & O normally only carried pulpwood as part of an internal corporate commodity transfer, the freight rate for pulpwood was partially set by the open market as the company never carried more than 50 per cent of its requirements. However, relying on multi-year contracts with outside carriers did have advantages. In 1924 a contract was arranged with the Montreal based Keystone Transportation Limited. Keystone which was jointly owned

September 1928; and Al Sykes and Skip Gilham, *Pulp & Paper Fleet: A History of the Quebec and Ontario Transportation Company* (St. Catharines, ON, 1988), 23.

<sup>94</sup> L A C, QUNO, interim box, 539, file 9, "Supplementary Letters Patent," 4 September 1943; and interim box 409, file 4, Financial Statements [pt. 4], Trial Balance December 31, 1943.

<sup>95</sup> *Ibid.*, interim box 408, file 1, "Analysis of Surplus Account from Inception of Company to Dec. 31-1920."

<sup>96</sup> *Ibid.*, interim box 64, file 1, H. A. Laird, [draft history of the Tribune's water transportation activities], 1938; and interim box 549, file 4, Historical Data: List of Boats," 1934.

<sup>97</sup> *Ibid.*, interim box 408, file 1, Financial Statements, 1922-1928. For Canadian Great Lakes grain rates during the 1920s see, M. Stephen Salmon, "Rank Imitation."

by Montreal Light, Heat and Power Limited and the Pittsburgh Coal Company, specialized in the movement of coal from American Lake Erie ports to Montreal.<sup>98</sup> As part of the contract, Keystone provided coal cargoes to the Q. & O. so that the pulpwood carrier would have a back haul commodity for at least part of its canallers return voyage.<sup>99</sup> Detailed pulpwood voyage records only survive for 1927 but they clearly illustrate the Q. & O.'s dépendance on Keystone and outside carriers to meet Ontario Paper's needs,(figure 5). In fact, these contracts show that the Q. & O.'s function at this stage of its development was to act as leverage in lowering freight rates rather than it being Ontario Paper's prime carrier of company pulpwood.

This need to exert control over freight rates led directly to the Q. & O.'s next major investment. During the 1920s Ontario Paper continued to have difficulties supplying the *Tribune* with paper at acceptable rates because of the cost of rail shipment. Various attempts were made, with only moderate success, to use contracted vessels. Finally a specially designed canaller-size newsprint carrier was ordered in 1929. The motor ship *Thorold* could carry 3,000 tons of newsprint a trip between the Canadian mill and Chicago.<sup>100</sup> For this intra-company transfer a special freight rate contract was devised that undercut the all-rail rate but still provided the Q. & O. with a profit. The new vessel, later renamed the *Chicago Tribune* quickly became the fleet's most profitable asset. So much so that unlike most other Canadian Great Lakes carriers the Q. & O. remained profitable throughout the depression. Initially this was done by converting the old 6 per cent mortgage on the canallers acquired in 1922 into non-interest bearing notes which were held by Ontario Paper. Included in this new "liability" was the unpaid portion of the cost of the *Chicago Tribune*.<sup>101</sup> In 1933 to meet the requirements of McCormick's New York newspaper for newsprint an eight-year-old canaller was added at the cost of \$95,000.<sup>102</sup> This acquisition turned the Q. & O. from a Great Lakes-St Lawrence shipping company into a true coastal shipping firm with services from the lower North Shore to Thorold, Thorold to Chicago, and Thorold to New York City.

While most Great Lakes shipping companies suffered during the Great Depression, McCormick's newspapers and Ontario Paper were able to take advantage of the hard times because the Q. & O. was able to force down the freight rate for pulpwood. In 1935, a new

L A C , Corporations Branch, RG 95, vol. 1579, Keystone Transportation Company of Canada Limited file.

L A C , QUNO, interim box 224, file 9, "[Draft] Keystone Contract," [December, 1927].

*Ibid.*, interim box 64, file 1, [draft history].

*Ibid.* Interim box 408, files 1 & 2, Financial statements 1928, 1929, & 1930.

*Ibid.*, interim box 408, file 2, Financial Statement, 1933.

## Ont. Paper Co. Pulpwood Shipments 1927

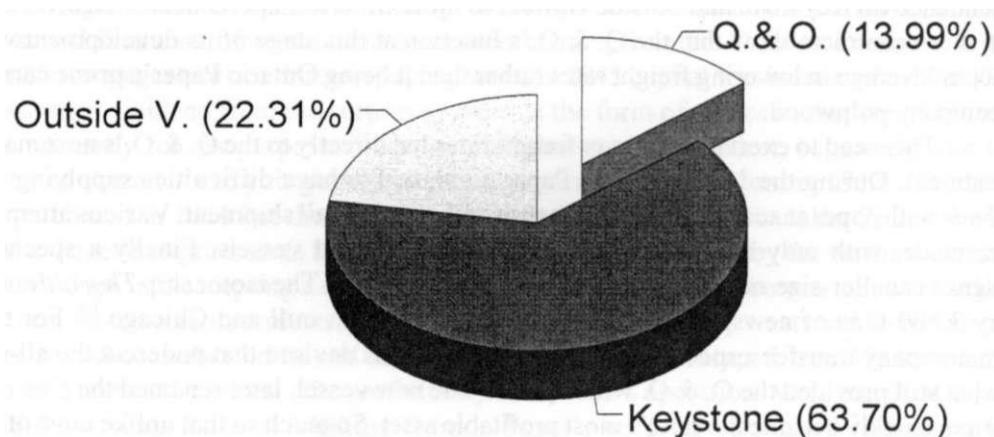


Figure 10. from L A C , QUNO , interim box 549, Pulpwood Contract

Sarnia Steamships Limited agreed to carry the pulpwood for \$2.65 a cord as opposed to the pervious contract rate of \$3.35.<sup>103</sup> This was done partly through playing one shipowner off against another, and by increasing the Q. & O.'s own capacity by adding a new canaller to its fleet. The two vessels added since 1933 had increased the company's pulpwood capacity by more than 80 per cent.<sup>104</sup>

<sup>103</sup> MMK, CSL, 993.2.1, Lake Freight Association file, T. W. Tinmouth to N. M. Paterson, 2 February 1935. For Captain Misener and Sarnia Steamships see, M. Stephen Salmon, "Corporate Survival: Canada Steamship Lines and Sarnia Steamships Limited 1929-1940, A Comparative Case Study," unpublished paper presented to the Canadian Historical Association Annual Meeting at St. Catharines, ON, June 1996.

<sup>104</sup> MMK, CSL, 993.2.1, Lake Freight Association file, A. D. Cobben, to T. R. Enderby, 1 March 1935, and T. R. Enderby to A. D. Cobben, 7 March 1935. For the pulpwood capacities of the Q& O.'s new acquisitions see, L A C, QUNO, interim box 408, Financial Statements, 1935, and 1937. The Q. & O. had to wait an extra year for the tonnage to enter service as the new canaller *Joseph Medill* was lost with all hands on her delivery voyage during August 1935. A new vessel ordered to replace her was completed in 1936, Sykes and Gillham, *Pulp & Paper Fleet*, 39-40.

Except for 1937 the Q. & O. remained profitable for the rest of the 1930s. Between 1936 and 1938 Ontario Paper built a new paper mill and a complete company town on its timber limits near the mouth of the Manicouagan River east of Quebec City. Lacking road and rail connections everything required to build the town christened, Baie Comeau, had to be shipped by water. To aid in the construction project the Q. & O.'s canallers, with the exception of the paper carrier, *Chicago Tribune*, were diverted from their normal pulpwood runs to help deliver the construction supplies to the town site. The most serious problem was the lack of dispatch for the miscellaneous freight being shipped to the development. Despite these problems the Q. & O. showed a loss of less than a \$1,000 in 1937.<sup>105</sup>

With the completion of the new paper mill in 1938 paper was no longer shipped from Thorold to New York, rather this market was supplied by Baie Comeau facilities. Originally this service was handled by chartered vessels. However, before these new routes could be firmly established the outbreak of the Second World War disrupted the Q. & O.'s routine. And in 1939 Ontario Paper acquired new timber limits in northern Ontario that required more tonnage to supply the mill at Thorold.<sup>106</sup> To meet this demand two second-hand vessels, the firm's first laker and an additional canaller, were purchased for a total of \$259,000.<sup>107</sup>

The outbreak of hostilities completely upset the Q. & O.'s pre-war shipping patterns. The initial difficulties were caused when the vessel chartered to carry newsprint from Baie Comeau to New York was requisitioned. To provide a degree of protection an American registered vessel was acquired and operated through a separate subsidiary of the Tribune Company, the Michigan Atlantic Corporation.<sup>108</sup> The increased wartime demand for tonnage of all types led to the requisitioning of three of the company's canallers for varying periods. One ship was lost.<sup>109</sup> More importantly for the Q. & O. profits held up. For the first time the company paid dividends, \$ 150,000 in 1941, \$75,000 in 1942, and \$270,000 in 1943. These payments were primarily for tax purposes as they reduced the firm's surplus account.<sup>110</sup>

The Q. & O. had prospered from the war and with the loss of only one vessel it was in a better position than either CSL or Paterson Steamships, particularly in terms of canaller tonnage. No new investments were made until the end of the 1948 season when a second-

<sup>105</sup> Details of building Baie Comeau, Quebec can be found in, Weigman, *Trees to News*, 171-192. For Q. & O.'s loss in 1937 see LAC, QUNO, interim box 408, file 2, Financial Statement 1937.

<sup>106</sup> LAC, QUNO, interim box 506, file 15, F. J. Byington, Jr., "Shipping Operations: Tribune Company and Subsidiaries."

<sup>107</sup> *Ibid.*, interim box 408, file 3, Financial Statement 1939.

<sup>108</sup> *Ibid.*, interim box 227, files 1-8, Illinois Atlantic Corporation: [Bible] (pts. 1-2), and interim box 226, files 19-20, Colabee Steamship Company: Bible.

<sup>109</sup> *Ibid.*, interim box 506, file 15, Byington, "Shipping Operations."

<sup>110</sup> *Ibid.*, interim box 408, files 3-5, Financial Statements, 1939-1945.

hand canaller, the *Manicouagan*, was acquired. Then April 1949 Ontario Paper acquired the assets of the Great Lakes Lumber and Shipping Company which included timber limits in northern Ontario and two laker sized barges (renamed the *Black River* and the *Pic River*), and a tug (renamed the *Rocky River*). These three vessels were valued at \$303,000.<sup>112</sup> The barges were notable by their age, both had been built in 1896. The tug and barges operated as a unit. While the *Black River* was being loaded with pulpwood the *Rocky River* would tow the *Pic River* to Thorold. The tug would then steam back to pick up the fully loaded *Black River* and take the barge to Thorold before coming back up the Lakes with the empty *Pic River*. For accounting purposes the three vessels were also treated as a single entity. They were distinctly unprofitable between 1949 and 1951, the combination lost \$10,800 before depreciation and \$161,400 after. During this period the *Manicouagan* also showed substantial losses after depreciation.<sup>113</sup>

The solution to the barges unprofitability was to convert the 55 year old vessels into motor ships at the total cost of \$2,229,000. The rebuilt tonnage immediately began to pay dividends primarily because they now became eligible for the Canadian government's accelerated depreciation scheme. This allowed the Q. & O. to write the ships off within three years.<sup>114</sup> The tax regulations had a paradoxical effect on the company's accounts. While the two rebuilt vessels became highly profitable with rates of return before depreciation ranging from 7.3 per cent to 39.7 per cent, after depreciation their negative returns were so high that the Q. & O. was able to report overall losses from 1952 to 1954. Thus it did not have to pay any income tax during these years.<sup>115</sup> Because of the accelerated depreciation program the company was able to show paper losses while at the same time providing increased service to its parent firms.

Before the opening of the St Lawrence Seaway in 1959 the Q. & O. added only two canallers while selling its oldest canaller to Paterson's in 1958. The new vessels cost \$1,612,000 but because the two vessels were built in a British shipyard they did not qualify for accelerated depreciation.<sup>116</sup> Unlike many of its larger rivals the company did not acquire any new lakers in anticipation of the opening of the seaway. The Q. & O. believed that for the pulpwood trade the canaller was the optimum sized vessel, and unsuccessfully argued

<sup>112</sup> *Ibid.*, interim box, 506, file 15, Byington, "Shipping Operations," interim box 113, files 2-5, Great Lakes Lumber and Shipping Limited, and interim box 409, file 2, Financial Statement 1949.

<sup>113</sup> *Ibid.*, interim box 506, file 15, Byington, "Shipping Operations." The *Manicouagan* lost \$6,100 before depreciation and \$142,800 after depreciation between 1949 and 1951, interim box 409, files 2-3, Financial Statement 1949-1951.

<sup>114</sup> Canada, *Report on Coasting Trade*, 150-151.

<sup>115</sup> LAC, QUNO, interim box 409, Financial Statements 1952 to 1954. The *Black River's* conversion was completed in the fall of 1952 and she completed only six voyages in 1952 while the *Pic River* was not completed until the opening of the 1953 season, see Sykes and Gillham, *Pulp and Paper Fleet*, 50 and 53.

<sup>116</sup> LAC, QUNO, interim box 409, Financial Statements 1955 and 1956.

to the Canadian Seaway Authority that the smaller ships should be exempt from tolls upon completion of the new canals."<sup>6</sup> It judged its other major trade, supplying newsprint to the Tribune Company papers, was well taken care of with the *Chicago Tribune* and the two converted barges. Indeed the Q. & O. was in the latter 1950s a most profitable company. Although it was the smallest of the three firms under review, the Q. & O. provided its parent companies with a valuable and profitable service.

The Canadian Great Lakes shipping industry came to be dominated by large firms specializing in bulk trades complemented by small operators servicing niche markets. Of the five largest firms in 1959, three were subsidiaries of other corporations or a division of a larger entity. Many of these businesses had established shipping arms to benefit their core investments. However, the largest firm, CSL was an independent shipping operation."<sup>7</sup> Smaller shipowners followed a similar pattern with either direct ties to larger enterprises or they served specific clients. All were integral parts of the larger North American economy whether they supplied big city newspapers or whether they delivered iron ore to steel makers docks.

Following the lead of the Canadian business as a whole towards ever larger corporate structures, the Great Lakes shipping industry developed in a similar fashion. But as the larger firms dominated the bulk sector, the restrictive size of the fourteen foot St Lawrence River canals, by lowering the investment threshold, allowed smaller niche players to survive until at least the opening of the seaway in 1959.

Investment between 1900 and 1959 went through three distinct booms separated by two world wars and the Great Depression. The period from 1900 to 1914 was part of the "Gilded Age" of the Laurier Boom. During this period the whole Canadian economy took off, fuelled at least in part by the settlement of the Canadian west. In these fifteen years the Canadian Great Lakes fleet increased ten fold. The opportunities for leverage financing provided by an apparently ever expanding market led to the formation of CSL. The new merger was both a quasi-monopoly and financially feeble giant. It had the good fortune to begin operations just before the outbreak of the First World War. That war was extremely profitable for Great Lakes shipowners but this prosperity came at a cost. This price was a decline in the actual number of capital assets as numerous steel hulled canallers were diverted to North Atlantic trades. Many of these vessels never returned. Their wooden hulled replacements were only a stop gap remedy with short life expectancies.

<sup>6</sup> *Ibid.*, interim box 530, file 12, Submission to the St Lawrence Seaway Authority, 1958.

<sup>7</sup> After Sir James Dunn acquired control of CSL he transferred his stock in the shipping company to Algoma Steel. CSL remained a publically traded run independent firm, McDowall, *Steel at the Sault*, 242.

The end of the war found the stock of modern canallers much depleted while the laker fleet was relatively untouched. Canadian shipowners, with one exception, reacted with enthusiasm to this opportunity. Playfair and others expanded their investments acquiring assets at an unprecedented rate. However, CSL because of the opportunistic behaviour of its insider network was unable to immediately participate in this outburst. The weakness within the largest player promoted the overexpansion of the industry. New entrants concentrated their investments on canaller tonnage, precisely the area of CSL's greatest deficiency. CSL's one major investment during the 1920s did not actually add new tonnage to the sector, rather it only saw the transfer of assets from one network to another. But as CSL eliminated one competitor with this acquisition, the transaction led directly to the creation of a new player controlled by an investor intent on protecting his primary business. Norman Paterson's new steamship company proceeded to purchase a fleet of second-hand lakers that increased the entire Canadian laker capacity by 20 per cent. Then, to balance his capabilities he bought eighteen canallers setting off a second boom in canaller investment.

With one canaller after another being unable to unload its cargo of grain in Montreal harbour during the spring of 1929, the roaring twenties on the Great Lakes came crashing down. The collapse of the global grain trade merged with the general economic crisis producing a catastrophe for Canadian Great Lakes shipping industry. Perhaps, only the western farm economy suffered more. The third largest shipowner went bankrupt while both CSL and Paterson Steamships were both in default of their obligations. Only the forbearance of their creditors allowed them to continue. Collectively, the industry's bankers and the British shipyards who held many of the mortgages, had learned the hard lesson that there was too much to lose by foreclosing on the industry. In CSL's case a drastic write down of assets was required. Because of its niche position as a provider of services for its parent firms, the Q. & O. road out the Great Depression in comparative prosperity. But for Paterson and others the turn around only came with the outbreak of the Second World War.

The war was the decisive event for Canadian Great Lakes shipping. During the conflict shipowners faced increased taxation, disruption of routes, requisition of vessels, loss of assets by enemy action, and increased profits. The war was good for business. By the end of 1945 the industry had again lost large numbers of canallers but only selected unfortunate shipowners required major investment to replace this tonnage, Paterson's among them. Because the sector as a whole had excess canaller capacity in 1939, the loss of tonnage was not as noticeable as it had been in 1919. On the other hand the laker fleet was elderly with the majority of ships having been built before 1914. To this two fold problem of old lakers and selective canaller replacement the Canadian government offered assistance. This aid came in the form of accelerated depreciation allowances for vessels built in Canadian shipyards. Allied to this direct help were the regulations of the Park Steamship replacement program, which permitted Great Lakes shipowners access to a varying percentage of the escrow funds that accumulated with the sale of the Canadian wartime built ocean going

merchant fleet to offshore registries. These two measures allowed access to discounted down payment funds and quick write downs on assets thus effectively decreasing capital requirements for new investment. Thirdly, by finally negotiating a treaty for the development of a St Lawrence Seaway with the United States, the Canadian government made it possible for shipowners to limit their investment in canallers, because these vessels now had a finite expiry date. The industry responded by adding more new laker tonnage than had been acquired in the previous fifty years. Because of the twin pillars of government policy and the growth of demand, these fifteen years were the most profitable period the industry had ever seen.

The period from 1900 to 1959 saw the Canadian Great Lakes shipping industry emerge from its marginal existence on the fringes of the American export grain trade to a central position in the Canadian economy as an indispensable servant of a modern industrial economy. While the export grain trade remained a staple for shipowners it was no longer the single driving force behind investment. The demand for iron ore and coal also contributed to the expansion of the industry. It was now a mature multi-faceted sector whose significance was reflected in the Canadian government's concern for its continued prosperity. Canadian Great Lakes shipping had indeed seen a "remarkable growth."