

# Pragmatic Federalism: The Politics Behind the 1969 Churchill Falls Contract

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[See table of contents](#)

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# Pragmatic Federalism: The Politics Behind the 1969 Churchill Falls Contract

JASON L. CHURCHILL

## INTRODUCTION

THERE ARE FEW THINGS that can simultaneously raise the ire of a Newfoundlander and cause a mournful reflective sigh more than the mention of Hydro-Quebec and the Churchill Falls power project. The mega project was once viewed as a panacea for the province's troubled financial condition. This initial euphoria waned with the struggle with Hydro-Quebec and the Quebec government to achieve a settlement over its development.<sup>1</sup>

Newfoundland's seventeen year struggle, from 1952 to 1969, over the development of Churchill Falls provides an important case study in the interplay of politics and economic development within the Canadian federal system. Issues pertaining to interprovincial and international commerce were of paramount importance to the entire Churchill Falls controversy as Newfoundland could not have developed the hydro resource without gaining access to the Canadian and American energy markets through Quebec. The Newfoundland government was unable to convince the federal government to invoke relevant sections of the British North America Act (BNA Act) to secure access through Quebec territory.

The crux of Newfoundland's difficulty in developing Labrador's hydro resources was its inability to secure a power corridor across Quebec territory. The Quebec negotiators realised the tremendous negotiating advantage that geography had allotted them and used its leverage to secure the onerous terms of the eventual 1969 contract. Without any federal assistance, Newfoundland and its agent, the British Newfoundland Company (BRINCO), were powerless to improve their relative bargaining position with Quebec and consequently accepted a deal which became like an albatross about the neck of successive Newfoundland governments.

This essay covers the time span from the initial negotiations to establish BRINCO in 1952 to the signing of the 1969 contract. During that time, the name of the river where the falls are located was changed from the Hamilton to the Churchill. In 1965 Smallwood changed the name of the river and falls to honour the deceased British Prime Minister Sir Winston Churchill. As a result, this essay uses the terms Hamilton River/ Falls and Churchill River/Falls interchangeably.

The eventual contract stipulated that Hydro-Quebec was to purchase, at minimum price, virtually all the output from the Churchill Falls generating station at a set price with no escalation clauses. Subsequent electricity sales to the North-Eastern United States provided a windfall for Hydro-Quebec, while Newfoundland received relatively little financial benefit. The contentious 1969 agreement continues to create animosity between the two provinces and has hindered subsequent attempts to develop potential hydro sites on the Lower Churchill River.<sup>2</sup>

From the beginning of Newfoundland's negotiations with Quebec, successive federal governments refused to intervene under the pretext that it was not the federal government's role to involve itself in interprovincial disputes. Given Newfoundland's geographic position in relation to an obstinate Quebec, federal non-involvement was tantamount to capitulation to Quebec's interest. Political pragmatism appeared to be the guiding principle of the federal government in its attitude towards the Churchill Falls negotiations.

## NEWFOUNDLAND'S GORDIAN KNOT: THE LABRADOR-QUEBEC BORDER

The issue of ownership of the Labrador Peninsula was integral to the development of the 1969 contract. Consequently, it is necessary to discuss the evolution of the "Labrador controversy" in order to conceptualise the difficulties faced by BRINCO negotiators in their discussions with Hydro-Quebec.

Ownership of Labrador was in dispute between the sister dominions of Canada and Newfoundland for decades before it was sent to arbitration. In 1902 the dispute came to a head when the Newfoundland government gave timber permits to the Grand River Pulp and Lumber Company in the Labrador interior. Both the Canadian and Quebec governments contested the jurisdictional right of Newfoundland to grant cutting rights in the area.<sup>3</sup> It was decided to submit the question of the border between Newfoundland and Canada to the highest authority on the subject, the Judicial Committee of the Privy Council, (JCPC) in London, England.<sup>4</sup>

Newfoundland's claim to the territory dated back to 1763 and the Treaty of Paris between France and Britain which placed the "Coast of Labrador" under the jurisdiction of the governor of Newfoundland.<sup>5</sup> The JCPC case hinged on the definition of the term "coast." Newfoundland argued that the term "coast" referred to "the crest of the watershed of the rivers flowing into the Atlantic Ocean."<sup>6</sup> In

contrast, the Canadians contended that the Labrador coast referred to a strip of land extending a mile back from the high water mark.<sup>7</sup> The JCPC rejected the Canadian definition as the proposed strip would have sealed “the hinterland up to the watershed from all contact with the shore, from which access would naturally [have been] sought.” It was decided that the 1763 Proclamation most likely did not intend such a limited definition of the term “coast.”<sup>8</sup>

In March 1927, the JCPC announced in its final decision that

the boundary between Canada and Newfoundland in the Labrador Peninsula is a line drawn due north from the eastern boundary of the bay or harbour of Ance Sablon as far as the fifty second degree of north latitude, and from thence westward along that parallel until it reaches the Romaine river and its headwaters to their source and from there due north to the crest of the watershed and northward along the crest of the watershed of the rivers flowing to the Atlantic until it reaches Cape Chidley...<sup>9</sup>

Initially there was some doubt concerning ownership of the Hamilton (Churchill) Falls; however by June 1927 the extent of Newfoundland’s victory was apparent.

The reaction in Quebec was one of dejected resignation. The *Montreal Herald* reported that the decision left “no doubt as to the ownership of the vast water powers on the Hamilton River...[and there would] be no appeal on the part of Canada.” It further stated that Quebecers and Canadians could seek consolation in the fact that the Canadian frontiers were firmly established.<sup>10</sup> Another paper, *The Montreal Daily Star*, acknowledged Newfoundland’s victory and suggested that if Canada wanted Labrador it could purchase the territory from Newfoundland.<sup>11</sup>

The reaction in Quebec’s leading French daily, *Le Devoir*, was decidedly more negative. The paper was of the opinion that Quebec had lost a great deal of its territory and that the province was wronged by the English in both Canada and in Britain.<sup>12</sup> In 1963, Quebec’s leading authority on the subject, Henri Dorion, conducted a major investigation into the 1927 decision. He identified numerous flaws, including the fact that Quebec was not formally represented at the hearings and therefore had grounds not to feel itself bound by the decision.<sup>13</sup> He later argued, however, that time and political inaction on the part of Quebec and Canadian politicians had weakened the province’s stance. By its official silence to the 1927 judgement — and its continued silence as Newfoundland developed the interior of Labrador — Quebec undermined its own position, that the Labrador border should be changed.<sup>14</sup>

In addition, the actions of various Quebec government departments and officials implied tacit recognition, or at least compliance, with the adjudicated border.<sup>15</sup> Dorion was left to conclude that: “the position of the Province of Quebec in respect to the 1927 judgement, a position which was strong at that time, *has progressively deteriorated since that date*, [sic] and that for this the Province of Quebec itself must bear responsibility, at least partially.” He also argued that the

federal government shared the blame, having entrenched the JCPC decision in the 1949 act that brought Newfoundland into confederation with Canada.<sup>16</sup> He further stated that the issue "had gone beyond the question of law."<sup>17</sup>

In 1927, Quebec's Premier Alexandre Taschereau said that Quebecers could take consolation from the fact that Newfoundland did not have the wherewithal to develop the Hamilton Fall's potential without the involvement of Quebec.<sup>18</sup> His sentiments presaged the notion of the "revenge of geography" expounded by Quebec journalist Paul Sauriol. Sauriol stated his opinion that "In spite of the Privy Council decision, these falls [Churchill Falls][were] so much a part of Quebec territory that it [was] impossible to exploit them without this power being used by Quebec."<sup>19</sup>

## 1952-1958: ESTABLISHMENT OF BRINCO AND HFPCO/CFLCO

Newfoundland's former premier, Joseph R. Smallwood, claimed that he first seriously entertained the idea of developing the Hamilton (Churchill) River<sup>20</sup> in 1926 while the Judicial Committee of the Privy Council was deciding ownership of the Labrador interior.<sup>21</sup> Smallwood's attitude toward Labrador's potential economic development was evident during the Newfoundland National Convention debates from 1946 to 1948.<sup>22</sup> The Convention was established to investigate Newfoundland and Labrador's financial condition and to decide upon potential future forms of government to be voted upon by the general population. Members of the National Convention well appreciated the economic importance of Labrador's vast mineral deposits, timber lands and abundant potential hydro power. Convention member and leading proponent of a return to responsible government, Peter Cashin, stated that Newfoundland's ownership of Labrador meant it had "a source of untold wealth," and a means by which it could "obtain and hold a continued prosperity." Similarly, Smallwood declared that while he had doubts about the future of the fishery and other activities, proposed mining operations in Labrador alone were "the biggest long-range thing" to have come to Newfoundland.<sup>23</sup>

While optimistic, Convention members often appeared preoccupied by the potential difficulties of Quebec's claims to the Labrador territory. Fears escalated when, in November 1947, Quebec Premier Maurice Duplessis stated that the government of Quebec did not consider the 1927 decision of the Judicial Committee of the Privy Council to be the final settlement of the Labrador boundary question. Of particular concern was the Duplessis reference to the iron ore deposit that spanned the Quebec-Newfoundland border. Duplessis' statement served to complicate the negotiations over potential terms by which Newfoundland could join Canada. Peter Cashin viewed Newfoundland's entry into confederation as "a

deliberate and preconceived plot" by Canada to rob Newfoundland of Labrador's wealth.<sup>24</sup>

In contrast to Cashin, Smallwood stated that the dispute had been between the Newfoundland and Canadian governments and Quebec had nothing to do with it. He further stated that Duplessis was "not an officer of the Government of Canada" but was a "slimy politician...fascist... Nazi... vote-getter," and his statements were election propaganda. Smallwood then read from a letter from the Prime Minister of Canada dated 29 October 1947 which stated that "The Province of Newfoundland will include the territory of Labrador, defined by the award of the Judicial Committee of the Privy Council in 1927 as Newfoundland territory."<sup>25</sup>

Smallwood viewed confederation both as a guarantee of improved standards of living for Newfoundlanders and a means of ensuring sustained economic development, based upon the province's vast natural resources. Smallwood hoped to use federal monies to fund the cost of preliminary surveys of Newfoundland's natural resources through Clause 22, the Economic Survey, of the proposed terms of union with Canada. Under Clause 22, the Government of Canada agreed that when Newfoundland became a province, the federal government would provide technical personnel, services and agencies and pay for an extensive survey of statistical and scientific data regarding Newfoundland and Labrador's economic and natural resource status and potential.<sup>26</sup>

Smallwood was a staunch believer in the sovereignty of the House of Assembly and its role in ensuring that resource development was conducted in the public, not private, interest. During the Convention, he stated his frustration with Newfoundland's past handling of foreign corporations. Smallwood vowed that if he were involved in the future government of Newfoundland, any company wishing to pursue development in Labrador would have "to be on their best behaviour" due to the threat of direct governmental involvement.<sup>27</sup> Smallwood also believed it was the role of government to initiate resource development by providing incentives and attracting private capital to invest in Newfoundland's economic diversification.<sup>28</sup> Cheap hydro-electric power was integral to Smallwood's diversification plans. The Premier adhered to the theory of "hydro-industrialisation," where companies would benefit from a large and stable supply of cheap power. That power would enable the companies to create employment for the local economy.<sup>29</sup>

After confederation with Canada in 1949, Smallwood turned his attention to making his vision regarding Newfoundland's resource and industrial development a reality. The government's first major attempt to stimulate resource exploration was the 1951 establishment of the Newfoundland and Labrador Corporation (NALCO) in 1951.<sup>30</sup> NALCO had three main objectives: to attract substantial financial capital to the province, to facilitate an accelerated rate of exploration of Newfoundland's resources and to assure a higher rate of return on resource investments.<sup>31</sup> NALCO was given large land and resource concessions, including the Hamilton

(Churchill) River and Falls, with specific time schedules where undeveloped lands would revert to the government.<sup>32</sup>

The government of Newfoundland took a lead role in NALCO's first year of operations by purchasing ninety percent (or 900,000) of the initial one million common shares at a price of \$900,000. The remaining ten percent (or 100,000) of the shares were purchased by private investors at a price of \$100,000.<sup>33</sup> The plan was to eventually sell the government's shares to private interests who would in turn invest in the development of the province's natural resources. The government was expected to assume this transient role, as it could not afford to provide ninety per cent of the millions required in capital investment for exploration on the island and in Labrador.<sup>34</sup> *The Newfoundland Journal of Commerce* reported that having provided the impetus for development, "the government was anxious to hand it back to private interest."<sup>35</sup>

NALCO was part of an overall development strategy based upon Smallwood's credo of "develop or perish." He was acutely aware that, while Confederation delivered many social improvements to the province, the easing of immigration barriers exacerbated the problem of significant numbers of young educated Newfoundlanders leaving the province. Each year between 1956-1961 alone an average of 3,300 people left the province.<sup>36</sup> In his memoirs, Smallwood stated that he worried about emigration numbers. Developing the province's natural resources was essential to keep young people in the province:

Newfoundlanders, especially the young ones, would never be willing to stay in a province that didn't give them a chance to work for a good living ... they would flock out in far greater numbers than they had been doing before Confederation Day. Those numbers would grow so large as to lead to a veritable stampede of Newfoundlanders to the mainland of Canada. Newfoundland would perish indeed.<sup>37</sup>

Author Doug Letto argues that, unfortunately, "develop or perish" was as detailed as Smallwood's industrial strategy appeared.<sup>38</sup> Ill-conceived plans to lure North American and European industrialists to the province to develop secondary processing cost the province \$26 million in the strategy's first six years of operation.<sup>39</sup> Meanwhile, NALCO failed to facilitate the development of Newfoundland's natural resources. Smallwood's first attempt at natural resource development through government incentives ended in 1957 when the majority of NALCO's shares were purchased by industrialist John C. Doyle of Canadian Javelin.<sup>40</sup> NALCO decided not to develop the Hamilton (Churchill) Falls project in the 1950s as Labrador did not have sufficient economic activity to use the enormous electrical output that the falls would generate.<sup>41</sup> The situation in Labrador did not deter Smallwood from his plans for harnessing the power of the Hamilton (Churchill) River. However, his attention shifted from North American investors to industrialists in the United Kingdom.

Smallwood went to London in 1952 and presented himself as "just a little man from a remote corner of the Empire."<sup>42</sup> With the help of industrialist Sir Eric Bowater and Canadian-British newspaper tycoon Lord Beaverbrook, Smallwood was able to secure funding for resource development in the province. Bowater introduced the Newfoundland Premier to the powerful Rothschild banking family.

Meanwhile, Beaverbrook set up a meeting with Sir Winston Churchill who offered his support, describing the enterprise as "a great imperial concept."<sup>43</sup> The British Newfoundland Company (BRINCO) was envisioned in the tradition of the East India Company and the Hudson's Bay Company.<sup>44</sup> Edward de Rothschild assembled an impressive conglomerate that combined merchant bankers, insurance companies, industrial interests, and miscellaneous companies. The aggregate value of the companies involved was in the area of \$20 billion.<sup>45</sup>

BRINCO was incorporated in the Newfoundland legislature on 31 March 1953. Two months later, a formal agreement was reached between the government and BRINCO which gave the company exclusive rights to 60,000 square miles of Newfoundland territory, 10,000 on the island and 50,000 in Labrador, including the Hamilton (Churchill) River.<sup>46</sup> With the massive 60,000-square-mile land concession came responsibilities and claw backs. To stimulate exploration, Section 4(a) of the Agreement forced BRINCO to spend at least \$1,250,000 every five years on research. Section 5 stipulated that at specific periods, BRINCO had to give back to the government significant amounts of land.<sup>47</sup> Similarly, BRINCO had to use the lands or they would revert to the government. BRINCO had to keep the government fully informed of its activities, pay rental fees and provide eight per cent of its profits each year to the government. The company was liable for other provincial taxes and royalties as well.<sup>48</sup> While the agreement was indeed generous Smallwood could not be accused of having "sold the shop."

In 1958, BRINCO established a subsidiary, the Hamilton Falls Power Corporation (HFP Co), later the Churchill Falls Labrador Corporation (CFL Co), for the exclusive purpose of developing the massive Hamilton (Churchill) Falls project.<sup>49</sup> Smallwood attempted to absolve himself from direct responsibility for the Churchill Falls development when he claimed "I did not negotiate with Hydro-Quebec, or with the Government of Quebec, or with Consolidated Edison, or with anyone else, for a power sales contract."<sup>50</sup> While Smallwood could technically wash his hands of the 1969 contract, he later described the relationship of BRINCO and the government as being "of the most intimate character."<sup>51</sup> Smallwood further stated that, "BRINCO [would] not move even its little finger without constant and close collaboration with this government."<sup>52</sup>

In later years there were critics, such as former Premier Brian Peckford, who claimed that the lack of direct provincial representation at the negotiating table was in part responsible for Newfoundland being "shafted." BRINCO and CFL Co were private companies contracted by the provincial government to represent Newfoundland's interests. As custodians of the resource, BRINCO, and subsequently CFL Co



obtained a ninety-nine year monopoly on the development and sale of Labrador hydro power. In the 1961 Water Lease Act the provincial government conceded to CFL Co "exclusive right and concession accordingly for a term of ninety-nine years renewable at the option of the Corporation (CFL Co) for a further period of ninety-nine years."<sup>53</sup> Peckford claimed that the agreement, in effect, put control "totally in the hands of outside interests whose only concern was to develop the power on their terms to ensure a profit. Newfoundland had essentially dealt herself out."<sup>54</sup>

The argument that BRINCO/CFL Co. shirked their obligations as custodians of Newfoundland's interest in Labrador is not fully justified. The idea that BRINCO was driven by private interest, independent of government control, is inaccurate. Section 9(5) and (6) of the 1953 agreement dictates a great deal of indirect, but substantial government control. BRINCO's exclusive rights to the selling of hydro-electric power were dependant upon government approval. Final authorization over the sale of electricity from the province remained within the Newfoundland Legislature. The BRINCO Act stated:

9(5): In the event of the exercise of the water power rights hereby granted, the Corporation [BRINCO] shall not export any electric power from Newfoundland or Labrador without the previous consent of the Government.

9(6): The Corporation [BRINCO] shall at all times give to the government full information with regard to its proposals for development of water rights under this Agreement, and consult with the government with regards to the sites or proposed sites of any such development and with regard to the general plans for such development.<sup>55</sup>

The concessions granted to BRINCO in 1953 did not preclude a significant role for the Newfoundland government. Therefore Smallwood's claim to not be a party to the Churchill negotiations was an argument of convenience as ultimate control and the final responsibility remained with Newfoundland's House of Assembly.

## 1960s: ENERGY MARKETS AND THE SIX DAY WAR

In order for BRINCO to begin to harness the Hamilton (Churchill) Falls it needed to find adequate markets for the enormous energy it would produce. The most promising of the potential markets was in the north-eastern United States, but prospects of a profitable export trade in hydro-electricity with the Americans prior to the 1960s was far from certain. From 1935 until 1970, electricity prices in the United States fell consistently, due, primarily, to the building of larger and more efficient power plants which could easily meet the increasing demands of the marketplace.<sup>56</sup> Furthermore, American power companies were interested in pursu-

ing nuclear rather than hydro-electric sources of energy.<sup>57</sup> The lack of a need to increase power imports was illustrated by American utilities increasing their electrical reserve margins from the end of the Korean War until 1960.<sup>58</sup>

However, beneath the stable surface of the American electric industry in the 1960s lay serious problems. Nuclear power advocates were experiencing serious opposition from public interest organisations concerned with the dangers of radiation and nuclear waste. Spiralling inflation greatly increased the capital cost of construction of new plants, both nuclear and conventional. Environmentalists were agitating about ecological damage from the use of fossil fuels also hindered the development of new power sources. The American utilities were further hindered by "wave upon wave of politically-motivated *we-are-stricter-than-you* city and state air-pollution regulations. They [environmentalists] were spurred on by federal legislation..."<sup>59</sup> In addition, new environmental restrictions on the mining of coal and uranium negatively affected the American utilities.<sup>60</sup>

The problems within the American electrical system were vividly displayed by the "Northeast Blackout" in November 1965. The loss of a power line from Ontario Hydro created one of the greatest electrical failures in history, affecting approximately thirty million people living in an area encompassing some 80,000 square miles.<sup>61</sup> American electrical expert Leonard S. Hyman claims that 1965 "was a watershed year for the electric utility industry" in that it illustrated the inadequacies of its reserves.<sup>62</sup> A contemporary American electrical engineer, Eberhard Graf von Matuschka, stated that the blackout "was cold enough, long enough and large enough to indicate the seriousness [of the limitations of the existing system], but not long enough to create an acute danger. We may thank our Creator for this gentle warning."<sup>63</sup> The utilities had to begin a search for new and more reliable sources of electric power. Unfortunately for Newfoundland, the BRINCO negotiators were not able to capitalize on the developments within the American electrical system. (This will be discussed in the section 1966-1969: Mounting Pressure and Final Agreement).

## 1962-1964: QUEBEC'S "REVENGE OF GEOGRAPHY" AND DIEFENBACKER'S ATTEMPT TO ESTABLISH A NATIONAL POWER GRID

The key problem facing BRINCO was gaining access to the lucrative North American markets. A potential solution was introduced in 1962 by Prime Minister John G. Diefenbaker who proposed the establishment of an integrated national electrical system. This national energy grid would establish electrical power lines spanning the country and facilitate the transfer of electrical energy from one part of Canada to another. Diefenbaker wanted to convene a conference where provincial officials could discuss the basic problems with the development and transmission of electric

power.<sup>64</sup> In a letter to Smallwood in February 1962, the Prime Minister stated that, "while development within a Province [was] a matter of Provincial jurisdiction, power developments between Provinces [were] of interest and concern to the Federal Government."<sup>65</sup>

Had Diefenbaker's scheme worked, Newfoundland would have gained access to the larger Canadian and American energy markets and, in theory, would have thwarted Quebec's "revenge of geography." Labrador was bound by geography to Quebec and as a result, Newfoundland had its access to the North American markets blocked by an intransigent Quebec. With the proposed grid however, Newfoundland would have had the same rights as other provinces in terms of interprovincial and international trade and consequently would have been able to market its abundant energy.

The response to Diefenbaker's initiative from the provinces was generally favourable. However, the two key provinces involved in the Churchill Falls development were reluctant to take part. Quebec felt the federal government was intruding upon provincial jurisdiction and Smallwood did not wish to jeopardize talks with Quebec. The Newfoundland government decided to send civil servant Gordon F. Pushie as an observer rather than a participant.<sup>66</sup>

The government of Quebec remained unwavering in its opposition to any such talks. According to the Quebec government's position, electrical transmission was a provincial matter and the federal government did not have any part to play.<sup>67</sup> When Diefenbaker first introduced the idea to the House of Commons, Quebec MP Lionel Chevrier was sceptical about the ultimate intentions of the grid. He considered the scheme a means of taking power from the provinces with a great abundance of electric energy and supplying it to energy deficient provinces. Chevrier said that Quebec would be wary of accepting such a plan, as it was one of the richest provinces in terms of hydro-electric power.<sup>68</sup>

In contrast, Diefenbaker portrayed the national transmission system as a great patriotic endeavour. In 1962 Diefenbaker stated that the "national grid would be the counterpart, in the field of electrical energy, of the two transcontinental railways, the Trans-Canada Highway, the nation-wide Civil Aviation system, and the cross-Canada radio and telecommunications chains. All are links helping to bind this country together and to enrich the nation's way of life."<sup>69</sup> Similar sentiments were expressed by other members of the House of Commons who advocated that the federal government establish the grid with or without the unanimous consent of the provinces. Parallels were drawn with the building of the Canadian Pacific Railroad that allowed for the East-West development of the Canadian economy.<sup>70</sup>

On 25 January 1962, Ontario MP Arnold Peters put forward a private member's bill requesting that the federal government provide "the necessary research and technical study" and call a dominion-provincial conference to discuss the establishment of a national electrical transmission system. His concern was that "at the

extreme ends of Canada there [was] a great potential of electrical power while in the central part, particularly in the province of Ontario, a shortage of power [was] developing."<sup>71</sup> Another Ontario MP, A.E. Robinson, echoed this concern when he stated that in twenty years Ontario would have been required to double the power supply, and that water sources for hydro-electric power were "about at an end."<sup>72</sup> Given the apparent severity of the situation, Peters denied the relevance of the constitutional issues involved. He stated that it was "obviously...within federal jurisdiction" and consequently the Prime Minister did not need provincial support to begin. Peters reminded the Prime Minister that provincial approval was not constitutionally required to build the Trans Canada Highway.<sup>73</sup>

Alberta MP H.M. Horner, in supporting the bill, condemned the self-interested parochial attitudes exhibited by the Premier of Quebec in refusing to consider the possibility of establishing a national grid. He claimed the Quebec response was political and

not the response of sensible people in that province..... [he] would suggest to the premier of Quebec, and perhaps to some of the other premiers of the other provinces, that the idea they should build, not power grids but political power grids within their provinces, as some of them would [have liked] to [have done], [was] not in the interest of Canada as a whole.<sup>74</sup>

Horner went on to argue that the federal government had a responsibility "to show the way in the development of Canada's resources."<sup>75</sup> In lieu of immediate action, Diefenbaker decided to establish the Committee on Long Distance Transmission and wait for its recommendations.

For the next five years, the committee met and analysed the cost and implications of such a scheme. Their task was made more difficult by the lack of cooperation from Quebec. With its vast hydro-electric resources and its geographic position, Quebec was integral to the success of any national program. Without Quebec's participation it would only be possible to establish regional interconnections.<sup>76</sup> While the Quebec provincial government abstained from any form of cooperation, Hydro-Quebec unofficially participated to a limited degree.<sup>77</sup>

## 1964-1965: DEMANDS TO NATIONALIZE BRINCO AND THE SEARCH FOR ALTERNATIVES

While awaiting the final report of Diefenbaker's Committee on Long Distance Transmission, BRINCO had to deal with a new threat. By 1964 Quebec was demanding the removal of BRINCO from the negotiations. This would happen if the project were nationalized. In discussing the possible nationalization of BRINCO it is necessary to examine why the Quebec government was anxious to remove BRINCO

from the negotiating table. Quebec was not motivated by any sense of benevolence, but rather, viewed nationalization as a way to acquire Churchill Falls power at a cheaper mill rate. BRINCO, as a private corporation, was required to make profits sufficient to pay after-tax dividends. Experts in Quebec estimated that nationalizing BRINCO could lower the price of electricity a mill per kilowatt hour, a saving of approximately \$32.2 million a year.<sup>78</sup>

Because of the enormous savings to Quebec, Premier Jean Lesage suggested that Quebec and Newfoundland should develop the Hamilton (Churchill) Falls project jointly, without any involvement from BRINCO.<sup>79</sup> Smallwood refused either to nationalize the project or to enter into a partnership with Quebec, which he claimed would be akin to "one elephant, one mouse".<sup>80</sup> He was concerned that removing BRINCO from the project would have an impact on Newfoundland's international business reputation. It would have appeared inconsistent for Newfoundland to have invested a great deal of time and energy in establishing BRINCO, only to abandon it just as the main object of the endeavour was coming to fruition. Smallwood feared that "financial circles on both sides of the Atlantic would never trust Newfoundland again; ...Newfoundland's name would stink in the nostrils of business people everywhere.... never again would we be able to induce an industrial or commercial concern to take us seriously."<sup>81</sup> In the beginning the Newfoundland government had to seek external backing, as it could not develop the Churchill project on its own. The province lacked the ability to raise the requisite funds internally or on the international market.

A further hindrance to nationalizing the project was Smallwood's personal loyalty to BRINCO shareholders (including himself) and especially fellow shareholder British Prime Minister Winston Churchill. The Quebec minister responsible for the project, René Lévesque, expressed his opinion that "Joey [was] crazy but he [meant] it. He [was] totally genuine. He [would not] nationalize Churchill Falls as long as Churchill [was] a shareholder."<sup>82</sup>

An advisor to the Quebec government, and later Chairman of Newfoundland and Labrador Hydro, Douglas Fullerton, viewed Smallwood's refusal to nationalize BRINCO as unfortunate. He claimed that if Quebec's offer had been accepted "Newfoundland would have shared in the proceeds of the power sales, as electric sales skyrocketed in the late '70s, instead of building up increasing resentment as Quebec made the most of its contract." In addition, he claimed the other hydro resources of Labrador would have been developed.<sup>83</sup>

Another major barrier to nationalizing the project was the rivalry between the premiers of Newfoundland and Quebec over the Labrador boundary. Smallwood once said that negotiating with Quebec over Churchill Falls was "the most maddening... infuriating... exasperating... unendurable experience a Premier of a sovereign Province [could] have." He further accused Quebec of not having any Canadian patriotism and being "Thoroughly, wholly, completely, exclusively selfish."<sup>84</sup> As explained by former President of BRINCO, Henry Borden, the Quebec

government negotiating in the 1960s faced serious pressures from the electorate over the Labrador border issue.

By 1964, as premier, Lesage had adopted an adversarial stand in negotiations with Smallwood regarding Labrador.<sup>85</sup> Borden explained that bitterness in Quebec over the Judicial Committee of the Privy Council decision was critical because "Hydro Quebec intended to purchase power from a non-Quebec corporation, CFL Co, ...a federal creation entity whose site was located in a part of Labrador which most Quebecers claimed belonged to Quebec anyway..." He added that the controversy over the Churchill Falls development "fanned political fires almost to the point of a conflagration."<sup>86</sup>

Quebec had insisted that adjustments to the Labrador border be part of a package deal to develop the Hamilton (Churchill) Falls.<sup>87</sup> Quebec wanted to gain control over the head waters of the major rivers that flow into Quebec territory. Smallwood, however, categorically denied media reports that an arrangement had been reached. In an address to the Newfoundland House of Assembly on 8 April 1964, Smallwood stated that, "No agreement [had] been made to change the boundary: no agreement, no bargain, no deal, no commitment.... Newfoundland's policy was to treat the Hamilton (Churchill) Falls development and the Labrador boundary as two separate things, completely unconnected."<sup>88</sup>

Arrogance and mistrust also affected Newfoundland's bargaining position.<sup>89</sup> Smallwood refused an offer from Quebec to construct and pay for transmission lines on Labrador territory. Borden claimed that the offer was refused because Smallwood "and Lesage were not on good terms and (Smallwood) was determined never to let Quebec have access by road or otherwise or to populate that huge area of Labrador which had been awarded to Newfoundland by the Judicial Committee, after decades and decades of dispute."<sup>90</sup>

It remains unclear if nationalizing BRINCO would have substantially changed the outcome of the negotiations. Former Newfoundland Minister of Energy in the Peckford administration, William Marshall, stated that "the problem was never with the company [BRINCO], it was with the contract."<sup>91</sup> Nationalizing BRINCO would not have changed the core problem facing development of Newfoundland's hydro resources in Labrador - access to energy markets. Whether developed by a private company or the provincial government, the need for federal involvement to ensure access to the North American markets remained central.<sup>92</sup>

Smallwood unsuccessfully sought alternatives to solve, with reference to Quebec, Newfoundland's geographic juggernaut and get its energy to the markets. One of his ideas involved running power lines through Newfoundland and the Maritime provinces in order to bypass Quebec territory. The proposed path was termed "the Anglo-Saxon" route. The British engineering firm of Preece, Cardew, & Ryder was contracted to investigate the feasibility and technical possibility of circumventing Quebec.

The terms of reference were defined by Smallwood in his letter of 3 July 1964. Preece, Cardew & Ryder were asked to investigate "the feasibility and economy of transmitting electric power from the Hamilton (Churchill) Falls through Labrador, Newfoundland, Nova Scotia and New Brunswick into New England, or at all events, to the New Brunswick-Maine border."<sup>93</sup> This route would span a distance of 1710 miles and the total cost would be a prohibitive \$941,000,000. This would inflate the cost at which the electricity would be sold in the American market.<sup>94</sup>

In January 1965, BRINCO asked Acres Canadian Bechtel to assess the Preece, Cardew & Ryder report. Their evaluation of the economics of the plan eliminated any notions that the scheme could be a profitable venture. While the technical feasibility of the Anglo-Saxon route was "not in doubt," the additional cost raised serious problems with financing and the price the American market would be willing to pay. The powerlines and infrastructure on Canadian territory would reduce the control the US utilities had over the transmission of the energy to their markets; consequently, Churchill Falls power would only be attractive if sold at "a very low price." The high cost of transmission would mean the economic margin would be very small and would "depend on being able to provide non-profit transmission financed entirely by borrowing at very low rates of interest."<sup>95</sup>

Acres Canadian Betchel concluded that in order to meet the cost available in the marketplace the electricity would have to be generated on a "break-even" basis, with no revenue of any kind to Newfoundland or BRINCO.<sup>96</sup> Their final conclusion was that,

everything would have to be given away, solely to support the demanding economics of the longer route...Newfoundland [would] have sacrificed horsepower royalty, rentals, tax rebates, and revenues as shareholders in HFPCO and BRINCO. BRINCO [would] have sacrificed all prospects of a return to shareholders, and the possibility of obtaining revenues which could be applied to further resource development.<sup>97</sup>

The Quebec route was most economical and would leave margins for taxes and return on equity. As most of the power had to be sold outside the province, the greatest benefit would be derived from tax and other revenues dependent on the profitability of the project.<sup>98</sup>

After much lobbying by the Newfoundland government, a solution was finally found which both allowed BRINCO to remain part of the project, and facilitated a reduction in the price of electricity for Hydro-Quebec. In 1965, Prime Minister Lester B. Pearson's government changed the Public Utilities Income Act in order to facilitate a 45% increase (from 50% to 95%) in the transfer of taxes collected from utility companies to the provinces. Newfoundland passed the additional savings on to BRINCO. This allowed the Corporation to sell electricity to Hydro-Quebec at a reduced price.<sup>99</sup> Previously it would have been cheaper to buy the power from a Crown, rather than a private corporation.

## 1965-1966: PEARSON'S VIEWS CONCERNING FEDERAL INVOLVEMENT

While the change in Canada's Public Utilities Income Act allowed Quebec to buy Churchill Falls power at a cheaper rate, it did not improve Newfoundland's relative bargaining position one iota. BRINCO and Newfoundland would remain at a serious disadvantage as long as Quebec dictated the terms of transmission through its territory. While the final assessment of the Anglo-Saxon route by Acres Canadian Bechtel may have been disappointing for both BRINCO and Smallwood, the Committee on Long Distance Transmission provided a glimmer of hope.

The Committee received a report from Ingledow Kidd & Associates Limited stating the beneficial effects of a national power grid on the development of the Churchill Falls project. Based upon projected power needs in Quebec, it appeared that Quebec would not be able to absorb all the output from the Hamilton (Churchill) development in the near future. The report anticipated, "that [while] the inter-provincial ties ...could provide the means of disposing of these surpluses in the neighbouring provinces to the economic advantage of the project and the provinces concerned... it would be unnecessary to export any significant amount of Hamilton (Churchill) Falls power to the United States."<sup>100</sup> Less than a year later, in August 1966, Ontario Hydro disagreed with the report. There appeared to be "little evidence to support the assumption that Churchill Falls power [could] be delivered to the Ontario market economically."<sup>101</sup> It would take another eleven months for the Committee to evaluate the various reports and deliver their verdict.

Meanwhile, negotiations appeared to be in a perpetual quagmire. A frustrated Smallwood lashed out and threatened to bypass the Quebec government by asking Prime Minister Pearson to declare the project in the national interest. This declaration would have enabled the federal government to transcend provincial jurisdiction. Theoretically, this would have allowed BRINCO to build transmission lines through Quebec and sell its energy directly to the North American markets. Smallwood consistently illustrated that the endeavour had major national implications, involving six of the ten provinces. In June 1965, Smallwood wrote Pearson and stated that after the needs of Newfoundland and Hydro-Quebec were met, surplus power would be made available to Ontario Hydro and the three Maritime provinces before any remaining power would be exported to the United States.<sup>102</sup>

Despite the broader implications, the Pearson government's interpretation of the role of the federal government with respect to provincial autonomy over the transmission of electrical power differed from that of the Diefenbaker administration. Diefenbaker had felt that interregional and international links were "matters in which the federal government had a direct interest."<sup>103</sup> When Alberta MP G.W. Baldwin asked the Prime Minister if the transmission of Churchill Falls Power would be considered for the general advantage of Canada, Pearson gave a cautious, noncommittal answer.<sup>104</sup> The Prime Minister replied that it appeared that he was



"being asked for a legal opinion" and he would "like to study the question very carefully."<sup>105</sup>

Similarly in 1965, Pearson responded vaguely when asked by Diefenbaker if he agreed that interprovincial trade could not be interfered with by a provincial government. Pearson said that the matter was "governed by law and convention." Diefenbaker then asked the Prime Minister what the long established tradition was, and if he considered the Lesage or Smallwood version of power transmission to be correct. Pearson claimed that he was "not aware of any fundamental distinction between the two views."<sup>106</sup> While reluctant to take a strong stance with regard to the Churchill development, Pearson's administration was not averse to becoming involved in construction of electric transmission lines.

In February 1966, Pearson announced \$300 million in spending to assist Manitoba with the Nelson River hydro project. The federal government planned to "construct, finance and own the high voltage transmission lines required to move the Nelson River power, and when the markets developed, to the international and interprovincial boundaries."<sup>107</sup> This was done to ensure that the power project proceeded, despite being in a province where the local market was too small for the province to develop its hydro resources on its own. Diefenbaker asked Pearson if there were any plans to reach an agreement with Newfoundland on the development of the Hamilton (Churchill) Falls project. In response Pearson drew a distinction between the two situations. In Manitoba the federal aid was negotiated strictly between the provincial and federal governments. The Labrador situation differed as there were two provincial governments collaborating with a private corporation, BRINCO, in the development of the Churchill River.<sup>108</sup>

Meanwhile, fears of a political — and potentially violent — backlash in Quebec halted Smallwood's attempts to declare the Churchill development in the national interest. The turbulent era of the 1960s diminished the prospect of enacting legislation that would likely agitate extreme nationalist sentiments in Quebec. Smallwood acknowledged this fact before the House of Assembly in Newfoundland in 1964. He stated that "property rights were under the control of Quebec and that certainly a transmission line running across the face of Quebec [was] a property ... subject to the absolute control of Quebec."<sup>109</sup> When Smallwood acknowledged the potential role for the federal government, he drew a strong distinction between the possible and the probable. Smallwood asked the Members of the House of Assembly (MHAs) "in all common sense" to ask the question of how realistic it was to expect the federal government to overrule the wishes of Quebec, especially given the socio-political conditions that existed in the country at the time.<sup>110</sup>

Nevertheless, by 1966 Smallwood's patience with the pace of negotiations ran out. After years of being "on the verge of success, but never...able to get over the verge,"<sup>111</sup> Smallwood planned to appeal directly to the Prime Minister to declare the development in the national interest. As with the Manitoba situation, it was unlikely that the amount of power produced could ever be sold in Newfoundland.

Consequently, it was "altogether necessary that large sales take place on continental Canadian soil."<sup>112</sup> From the Newfoundland perspective the transmission line was of paramount importance. On 29 September 1966, two weeks before BRINCO and Hydro-Quebec signed the initial Letter of Intent to begin work on Churchill Falls, Smallwood drafted a letter for Ottawa that formally requested

the Government of Canada to invoke Paragraph (c) of Clause 10 of Section 92 of the British North America Act. If the Government of Canada would proceed forthwith to build a transmission line from Churchill Falls to a point where it would tie in with power grids in Eastern Canada it would ensure an immediate start on the construction of the Churchill Falls power project itself. In that case the power would be in production and available to consumers in Canada in 1971.<sup>113</sup>

Smallwood stated that such an action would be a means to an end and not an end in itself.<sup>114</sup> However, his attempts to gain advantage by requesting the federal government to use its constitutional powers in Newfoundland's defence proved futile.

Based on the available evidence, it does not appear that the request was ever formally presented. There are three accounts of why the letter was never given to the Prime Minister. Former head of BRINCO, Henry Borden, claimed that he and CFL Co. representatives Donald McParland and Sir Val Duncan met Smallwood in a Montreal Holiday Inn and convinced him to defer sending the letter until after 7 October 1966. This allowed for the response of the Quebec government to be made first, which they hoped would make Newfoundland's request irrelevant.<sup>115</sup> Finally, on 13 October 1966, the Letter of Intent was signed. The agreement provided that Hydro-Quebec would buy virtually all the power from Churchill Falls that was in excess of the needs of Newfoundland.<sup>116</sup>

Another version of the ill-fated proposal involved the threat of violence. Former Smallwood cabinet minister Frederick Rowe accompanied Smallwood when he first mentioned to the Quebec Premier the prospect of going the federal route to establish the transmission links. Premier Lesage's reaction to this news was to ask the ominous question of how would Newfoundland "deal with the problem of sabotage."<sup>117</sup> In his book, *The Smallwood Era*, Rowe left the impression that the implication of officially sanctioned terrorism was enough to dissuade Smallwood from proceeding. Erecting power lines through Quebec territory against the province's wishes would be problematic under the best of circumstances, but heightened tensions caused by the nationalism in 1960s Quebec exacerbated the problem. Smallwood realised the danger of violence, claiming that "a well-placed bomb here and there would put the line out of commission for days at a time, and BRINCO could be led on an un-merry chase restoring the destruction as fast as the bombs could be placed."<sup>118</sup>

The threat of violence was also a factor in the inaction of Prime Minister Pearson. Smallwood, in an interview with Newfoundland lawyer Cabot Martin, claimed that after the CFL Co. officials left his hotel room, Smallwood went to meet Pearson personally to discuss the option. When Smallwood approached Pearson he never got to pose the request as Smallwood told Martin,

And before I could say a word, Mr. Pearson said, 'Joe, I know why you are here and if you ask me I'll have to say yes, otherwise we would not really be a country. But I'm asking you not to ask me because we will not be able to keep the towers up.' Joey paused, then looked at me as if to ask 'What would you have done?' and said 'So I didn't ask him.'<sup>119</sup>

It would appear inconsistent that the man who won the 1957 Nobel Peace Prize for the part he played in establishing peacekeeping forces within the United Nations lacked the resolve to deal with the threat of violence in the domestic sphere. For whatever reason, when Smallwood did not press the issue of establishing a power corridor through Quebec the province failed to achieve a stronger bargaining position with Hydro-Quebec. By not utilising relevant sections of the British North America Act, Smallwood was unable to prevent Quebec from capitalising on what Peckford would later describe as Quebec's "territorially-derived monopoly."<sup>120</sup>

The fate of the Quebec-Newfoundland talks was symptomatic of a broader national problem of distribution of power. In January of 1965, Pearson read a memorandum concerning the condition of electric power in Canada and the need of greater federal government activity in facilitating electric development. Federal activity was restricted to the realm of export agreements and international relations. There was

almost a total absence of planning on a basis transcending provincial boundaries... The wrangle between Newfoundland and Quebec over Hamilton (Churchill) Falls has been a discouraging indication of the probable failure to get cooperation... What is needed is some catalytic action by the federal government.... Only through such action ... are such jealousies and fears likely to be overcome.<sup>121</sup>

There was "little doubt that interprovincial power arrangements and power movements [came], or could [have been] brought under federal jurisdiction."<sup>122</sup> The federal government had to be wary of how it accomplished this, as the provinces were protective over areas of jurisdiction. The federal government had to establish a more cooperative spirit amongst the provinces. The Memorandum suggested that the provinces be invited to a "Canadian Power Conference" to be held in 1965 to assess the future power needs of the country and how best to capitalize on the country's electric potential.<sup>123</sup> The Prime Minister did not act upon the memorandum's suggestions and allowed the provinces to continue bickering. Except for a

few informal and ineffectual meetings with Premiers Smallwood and Lesage, Pearson did little to further negotiations.

To be fair to the Prime Minister, he was consistent in his approach to the problem. When he was asked if the federal government was to play an important role, he replied, "No, nothing special."<sup>124</sup> This was consistent with Pearson's approach to political problems in general. In 1966 Pearson was quoted as saying, "my whole career, my deepest instincts, have been dedicated to the resolution of disputes, to the search for agreement, to the avoidance of controversy and to find solutions to difficult problems."<sup>125</sup> As evidenced by his winning the Nobel Peace Prize in 1957, his diplomatic attitude served Pearson well in the international arena. Within Canada, however, he came to be viewed as a "foreign affairs expert -domestic affairs novice."<sup>126</sup>

The inadequacies of Pearson's domestic leadership were evident in his handling of the power dispute between Newfoundland and Quebec. Remaining silent on the issue of establishing transmission lines through Quebec was tantamount to capitulating to the Quebec interest. The province had to go through Quebec territory to get the power to the markets; it could not do so without federal assistance.

## 1966-1969: MOUNTING PRESSURE AND FINAL AGREEMENT

Pearson's silence, coupled with the infeasibility of the "Anglo-Saxon Route," left the province to hope for a favourable report from the Committee on Long Distance Transmission. This was Newfoundland's last substantial hope for securing access to the North American markets, without Quebec dictating the terms under which it would transpire. The hope died in July 1967. In that month, the Committee investigating the potential for a National Power Grid recommended against the scheme. The Committee concluded that there "was no doubt an improved network would assist in the marketing of Nelson and Churchill River power."<sup>127</sup> Despite this, overall the benefits of the plan were perceived as marginal and a further study was deemed unwarranted.<sup>128</sup>

The seemingly perpetual complications took their toll on the financial resources of BRINCO. The signing of the 1966 Letter of Intent did not ensure the stability of either BRINCO or the project. The final agreement would entail another two and a half years of arduous negotiations. Quebec was also anxious to develop the Churchill Falls project, as economists were predicting that without the power development Quebec would have to begin rationing electricity within the decade.<sup>129</sup> Lévesque stated that without Churchill Falls, Hydro-Quebec would have to face financing large projects and borrow money from the international financial markets where money was "rare and expensive." While Hydro-Quebec could have "[lived] without Churchill Falls...it [could not] live without them if it [wanted] to live the easy life."<sup>130</sup> This appeared to place BRINCO in a stronger bargaining position.

Despite Hydro-Quebec's apparent need for Churchill power, it was able to secure such favourable terms because BRINCO was in dire straits and needed to conclude a deal quickly. As Smallwood stated, "their (Hydro-Quebec) need to sign was not as great or pressing as was the developer's need to sell."<sup>131</sup> By 1968 BRINCO was experiencing serious cash flow problems and it became necessary to arrange a second mortgage on the Churchill Falls development. Tragically for Newfoundland, neither the province nor BRINCO could afford to buy into the second mortgage.<sup>132</sup> In contrast, Quebec was receiving substantial benefits from the then recently established Quebec Pension Plan (QPP).<sup>133</sup> Initial plans for the establishment of a Canadian Pension Plan called for a "pay as you go" plan. However, pressure from Quebec and other provinces changed the contribution scheme in order to increase the contribution rates.<sup>134</sup> With contributors far exceeding recipients in the first decade of operation of the plan a substantial surplus was created. In Quebec, in 1966, the QPP netted the provincial government \$186.6 million. Two years later, in 1968, the figure had grown to \$681.1 million and the year the contract was signed in 1969 the fund provided Quebec with \$991.7 million.<sup>135</sup> With Quebec in a secure financial position, it was able to afford contributing to the second mortgage and consequently increased its portion of shares in the Churchill Falls Labrador Corporation (CFL Co.) to 34.2 per cent. Newfoundland could not match the economic strength of Quebec and Smallwood agreed to the mortgage bonds plan. Dismayed, Smallwood asked the forlorn question, "Is this what it comes to after all these efforts down through the years, it ends with Quebec owning the damn thing?"<sup>136</sup>

Hydro-Quebec could hardly be criticised for utilising its advantage to achieve the best possible deal. The drafts of the final contract demonstrate the strength of the Hydro-Quebec negotiators. The section pertaining to the "Applicability of Law" initially reflected Newfoundland's interest, but in the final agreement full control rested with the Quebec courts. In the first draft in January 1968, it was stated that the power contract would be "governed by, and interpreted in accordance with, the laws of the Province of Newfoundland."<sup>137</sup> The second draft made the courts of Quebec supreme but still gave *de facto* recognition of Newfoundland's ownership of the Labrador peninsula. According to the second draft, the Power Contract was to "be governed by, and interpreted in accordance with, the laws of the Province of Quebec notwithstanding that the place of sale is acknowledged to be in the Province of Newfoundland."<sup>138</sup> By May 1968 all references to Newfoundland had been excised. The May draft was accepted as final and stipulated that the Power contract was, "at all times and in all respects to be governed by, and interpreted in accordance with, the laws of the Province of Quebec. The only courts competent to adjudicate disputes between the parties hereto arising out of this contract are subject to appeal to the Supreme Court of Canada..."<sup>139</sup>

The same type of capitulation occurred with regard to the extension of the terms of the contract. As inequitable as the 1969 agreement was, a strong agreement was

necessary to instill investor confidence in the project. The Economic Council of Canada, in a 1980 report, stated that the provisions entailed for the first forty years of the contract were essential.<sup>140</sup> Quebec was shrewd, however, in establishing that the generous deal could be extended, if they wanted it, at the end of the forty year period, for an additional twenty-five years. Investor confidence in the scheme was secured by the terms of the initial forty year contract. The twenty-five year extension was not necessary to the successful completion of the project, as all bonds were to be repaid after the first forty year period.<sup>141</sup>

Despite this, Hydro-Quebec arranged to have the twenty-five year extension applied automatically at the end of the initial forty year term.<sup>142</sup> In the January 1968 draft agreement the extension was to be negotiated. If Hydro-Quebec wanted to renew the agreement it had to notify CFL Co ten years in advance of the expiry of the forty year term. If the parties failed to agree upon renewal within the aforesaid time limit, Hydro-Quebec's right to renew [would] therefore lapse.<sup>143</sup> By May 1968, the terms were modified and the modifications became part of the final agreement. The May version stipulated the contract was to be renewed for a further twenty-five years at a reduced price.<sup>144</sup>

There were other options which might have been pursued.<sup>145</sup> With federal assistance, Newfoundland could have developed the Churchill resources as Manitoba had developed the Nelson River project. This would have entailed federal intervention against the wishes of Quebec and the removal of BRINCO from the project. Given Pearson's timid demeanour in dealing with Quebec and Smallwood's previous refusal to nationalize BRINCO, this option was never pursued.

Alternatively, Smallwood could have simply allowed the project to fail and the unharnessed power of the Churchill River would have flowed to the Atlantic indefinitely. This would have meant waiting for circumstances to change until Newfoundland was in a stronger bargaining position. Most likely such hesitation would have led to the demise of BRINCO and the seventeen years of toil in pursuit of development would have been squandered.

In considering the question of whether it might have been preferable to have allowed the project to fail it is necessary to view the 1969 contract based upon when it was negotiated and not based upon contemporary circumstances. In the years before the 1973 energy crisis, the deal was viewed favourably. Political scientist Philip Mathias praised Newfoundland for not using public money to finance the project. While securing economic benefits from the Churchill development, Newfoundland did not have to provide "one cent for Churchill Falls." Mathias went on to claim that "... BRINCO's backers [had] come out of the project at least as well as Newfoundland."<sup>146</sup> It is somewhat ironic that a source of pride for Newfoundland in 1971 should, in subsequent years, provide Hydro-Quebec with its strongest and most repeated justification for adhering to the 1969 contract. Former Newfoundland Premier Brian Peckford conceded that no one quarrelled with the contract at

the time; the problem with the contract was the fact that it was signed for "such a long time without any re-openers or escalation clause."<sup>147</sup>

In 1982, Hydro-Quebec President Joseph Bourbeau stated that it was "easy and rather convenient, to give history a miss, and ten or fifteen years down the road, start questioning commitments that required lengthy negotiation."<sup>148</sup> Bourbeau summarised Hydro-Quebec's position on the 1969 contract:

Hydro-Quebec assumed nearly all of the risk involved in Churchill Falls. Basically these risks were the same as those [Hydro-Quebec] would have run had this been one of [its own] projects. Surely it [was] not only right that Hydro-Quebec should [have obtained] the same benefit from Churchill Falls as it [did] from its own hydro developments — a stable price for the power once the plant [was] built and operating.<sup>149</sup>

Bourbeau also questioned how the 1969 contract could be perceived as unfair when CFL Co "in 1981 made a profit of 40% on its sales and a return of 17.8% on its stockholders' equity, for an almost riskless venture."<sup>150</sup>

According to Bourbeau, the price of three mills per kilowatt hour in 1969 was quite reasonable. He asked, if the Churchill development was such an attractive investment scheme, why had potential customers such as Ontario-Hydro and Consolidated Edison decided not to participate directly?<sup>151</sup> Bourbeau later answered his first question when he discussed Newfoundland's energy demands and geographic position. Negotiation was considered the only option; the Newfoundland market was too small to use all the energy and export through Quebec was essential to any development. Bourbeau emphasized this fact when he stated that Hydro-Quebec could not "be held responsible for the geography of Newfoundland."<sup>152</sup> In order for Newfoundland to get its energy economically to market, it had to go through Quebec. Without federal support, any dealings with Ontario-Hydro or the American utilities would be subject, to a large extent, to the dictates of Quebec.

## HINDSIGHT AND SPECULATION

One has to be careful when entering the murky realm of "what if" history and making merit judgements three decades after the fact. When an event changes, it necessarily leads to subsequent changes. Based upon the evidence presented, there appears the distinct possibility that had Smallwood allowed the project to fail in 1969, Churchill Falls would still be unharassed. Economic feasibility and desirability, no matter how strong, are not guarantees of development. Throughout subsequent decades the federal government continued to exhibit a non-interventionist attitude and as a consequence the Lower Churchill was not developed.

In March 1998 the Quebec and Newfoundland governments announced they would begin negotiations on the further development of the Churchill River. This was not expedited by Ottawa. Rather, it was the deregulation of the American energy markets that created a new opportunity for Newfoundland to level the playing field with Quebec and consider developing hydro sites on the Lower Churchill River.

The American Federal Energy Regulatory Commission implemented "Order 888," which states that any companies, especially any monopolies, wishing to sell into the U.S. market have to illustrate that they exercise fair market practices. In order to sell into the lucrative American energy markets, Hydro-Quebec has to allow Newfoundland to transmit its energy through the Quebec energy grid. As Bernard Simon of the *Financial Post* reported in July 1997:

Until recently, Quebec has turned a deaf ear to Newfoundland's pleas to renegotiate the (1969) agreement. The Supreme Court has also ruled in favor of the French-speaking province.

But under Order 888, Hydro-Quebec would have to make its transmission grid available to Newfoundland if the latter decided to expand Churchill Falls and export its electricity to the U.S.<sup>153</sup>

Meanwhile, the Canadian federal government once again remains conspicuously quiet on the state of negotiations and is only passively involved, with little apparent interest in taking an active role.

The answer to the ultimate question on the Churchill Falls project, was it worth developing, is not a subject for serious historical inquiry. That is not to say that the history of the 1969 Churchill Falls Contract does not have important lessons for the present day. For Newfoundland, the implications of the problems associated with the Churchill Falls Power Contract extended far beyond the mantra, "a deal is a deal." Federal reluctance to become involved in negotiations allowed Hydro-Quebec to achieve the onerous terms of the 1969 Churchill Falls Agreement. Into the 1970s and 1980s, continued political pragmatism on the part of the federal government hindered attempts to redress inadequacies in the 1969 contract and ultimately prevented the future development of Newfoundland's hydro resources in Labrador; that, however, is a story for another essay.

NOTE: Feedback on this essay will be happily received at [jlchurch@artsmail.uwaterloo.ca](mailto:jlchurch@artsmail.uwaterloo.ca)



## Notes

<sup>1</sup>Joseph R. Smallwood, *I Chose Canada, The Memoirs of the Honourable Joseph R. "Joey" Smallwood*. (Toronto: Macmillan of Canada, 1973), p.468.

<sup>2</sup>The extent of the bitterness felt in Newfoundland was expressed by former Premier Brian Peckford. In 1983 he wrote:

Unquestionably, it is in the development of the Upper Churchill River that contemporary Newfoundlanders find the most appalling betrayal of their interest. Here was a great Provincial resource that, tragically, followed the same concession-ridden course of the earlier "smaller" resource developments.... And so it came to pass that yet another "new beginning" turned out to be the greatest resource mistake in our long, turbulent history.

A. Brian Peckford, *The Past in the Present: A Personal Perspective on Newfoundland's Future*. (St.John's: Harry Cuff Publications Limited,1983), p.57.

<sup>3</sup>George Edward Charles Powell, "The Press and the Labrador Decision of 1927," (MUN: Unpublished Honours essay, 1980), pp.1-2.

<sup>4</sup>Sir Patrick McGrath, "A Layman's View of the Privy Council," *The Dalhousie Review* (October 1927), p.297.

<sup>5</sup>McGrath, "A Layman's View," p.292.

<sup>6</sup>Lords of the Judicial Committee of the Privy Council, hereafter JCPC. *Text of the Report of the Privy Council on the Labrador Dispute*. (n.p.: Robinson & Co. Ltd., Printers and Publishers, 1927). p.18.

<sup>7</sup>JCPC. "Report", p.17.

<sup>8</sup>JCPC. "Report", p.25.

<sup>9</sup>JCPC. "Report", p.37.

<sup>10</sup>N.A. "Canada and Its Frontiers", *Montreal Herald* 8 June 1927, "Press Clippings" CFL Co Background File, Newfoundland Legislative Library, hereafter NLL.

<sup>11</sup>Powell, "The Press", pp.30-1.

<sup>12</sup>Powell, "The Press", pp.43.

<sup>13</sup>Henri Dorion, *La Frontière Québec-Terre-Neuve*, (Québec: Les Press de l'Université Laval, 1963). —English Translation: Dr. John Hewson with Dr. A.G. MacPherson and Dr. Michael Staveley, "The Quebec-Newfoundland Boundary by Henri Dorion," (MUN: Unpublished, 1967), p.52.

<sup>14</sup>The Iron Ore Company of Canada was one of the key players in the province of Newfoundland's development of the Labrador interior. Dorion, *La Frontière*, pp.121-2.

<sup>15</sup>Quebec's Premier in 1927, Alexandre Taschereau, said that they were "taking [their] loss like good sports... [Canada had] on the whole definitely lost what [they] claimed."

N.A. "Labrador Decision, A Fruitless Victory For Newfoundland?" *Toronto Star*, 14 June 1927, "Press Clippings" CFL Co Background File, NLL.

Similarly, former Quebec Premier Jean Lesage offered recognition of the border. As the Minister for Northern Affairs and National Resources in Louis St. Laurent's cabinet Lesage sanctioned Newfoundland's claims to the Labrador hinterland. On 25 May 1956, Howard C. Greene asked Lesage about reports that plans were being made for the development of the hydro resources on the Hamilton river. Without having read the proposals, Lesage responded that "of course, the water resources of Labrador [were] the property of the government of Newfoundland."

Jean Lesage, *Commons Hansard*, 25 May 1956, p. 4324.

<sup>16</sup>Dorion, *La Frontière*, pp.121-2.

<sup>17</sup>Dorion, *La Frontière*, p.236.

<sup>18</sup>N.A. "Labrador Decision, A Fruitless Victory For Newfoundland?" *Toronto Star*, 14 June 1927, "Press Clippings" CFL Co Background File, NLL.

<sup>19</sup>Paul Sauriol, "Comment From Quebec Labrador Border." *Peterborough Examiner*, 7 June 1968, "Press Clippings" CFL Co Background File, NLL.

<sup>20</sup>The Hamilton (Churchill) River and Falls were later renamed in 1965 to honour British Prime Minister W.S. Churchill. In this essay they will generally be referred to as the Churchill River and Falls.

<sup>21</sup>Smallwood. *I Chose Canada*. p.444.

<sup>22</sup>The Convention was established to examine Newfoundland's economic condition and its political future.

<sup>23</sup>James K. Hiller and Michael Harrington. *The Newfoundland National Convention*, Vol. I, p. 515.

<sup>24</sup>Hiller and Harrington. *The Newfoundland National Convention*, Vol. I, pp. 900-1.

<sup>25</sup>Hiller and Harrington. *The Newfoundland National Convention*, Vol. I, pp. 902-3.

<sup>26</sup>He considered the Economic Survey to be "the most important thing" in the entire Canadian proposal, surpassing even the extensive social security and subsidies to the Newfoundland government.

Hiller and Harrington, *The Newfoundland National Convention*, Vol. I, pp. 903-4.

<sup>27</sup>Hiller and Harrington, *The Newfoundland National Convention*, Vol. I, p.514.

In dealing with timber concessions in Labrador in 1946 he said that it was necessary for corporations involved to come before the government to seek concessions so that "the government might have a chance of working something out of them in return." — *Ibid.* p.180.

<sup>28</sup>Valerie A. Summers, "Newfoundland: Resource Change and Regime Change in the Federal Era, 1949-1991", in Keith Brownsey and Michael Howlett (editors), *The Provincial State: Politics in Canada's Provinces and Territories*. (Mississauga: Copp Clark Pitman Ltd., 1992), p. 13.

<sup>29</sup>Peter Crabb, "Hydro Electric Power in Newfoundland, Tasmania and the South Island: Development or Underdevelopment in Peripheral Territories." (Unpublished essay presented at the "Three Nations Conference: Development and Underdevelopment in Peripheral Territories", November 1980), p.6.

<sup>30</sup>NALCO was described by Richard Gwyn as "Smallwood's bid to reverse the melancholy history of Newfoundland's struggle to escape its heritage of a one-crop economy of fish."

Richard Gwyn, *Smallwood: The Unlikely Revolutionary*. (Toronto: McClelland and Stewart Limited, 1972), p.154.

<sup>31</sup>C.A. Pippy and Alfred A. Valdmanis, *Newfoundland and Labrador Corporation Limited — Annual Report 1952*. (MUN: Center for Newfoundland Studies), p.1.

<sup>32</sup>Rupert Jackson, "'Nalco' Marks New Era in Development Program." *The Newfoundland Journal of Commerce*. (19, 7: July 1952), pp.38-9.

<sup>33</sup>Government of Newfoundland, "Newfoundland and Labrador Corporation Limited: Act of Incorporation, Office Consolidation, 1953 (First Edition)." (MUN: Centre for Newfoundland Studies), p.6.

<sup>34</sup>Smallwood. *I Chose Canada*, p.353.

<sup>35</sup>Jackson. "Nalco", p.41.

<sup>36</sup>Doug Letto. *Chocolate Bars and Rubber Boots: The Smallwood Industrialization Plan*. (Paradise: Blue Hill Publishing, 1998), pp.2-3.

<sup>37</sup>Smallwood. *I Chose Canada*, pp.243, 245.

<sup>38</sup>Letto. *Chocolate Bars*, p.92.

<sup>39</sup>Letto. *Chocolate Bars*, p.xiv.

<sup>40</sup>Doyle opened Wabush Mines in 1963 and started a linerboard mill at Stephenville before being arrested in 1973 on fraud charges in relation to the linerboard mill. The next year Doyle moved to Panama to be safe from criminal prosecution.

Frederick W. Rowe. *The Smallwood Era*. (Toronto: McGraw-Hill Ryerson, 1985), pp.20-4. Robert H. Cuff, Melvin Baker and Robert D. W. Pitt, *Dictionary of Newfoundland and Labrador Biography*. (St. John's: H. Cuff, 1990), p. 88.

<sup>41</sup>Jackson. "Nalco", p.41.

<sup>42</sup>Gwyn. *Smallwood*, p.256.

<sup>43</sup>Smallwood. *I Chose Canada*, p.446.

<sup>44</sup>Gwyn. *Smallwood*, p.257.

<sup>45</sup>Included were such Rothschild businesses as Rio Tinto Company Limited, the Anglo-American Corporation of South Africa, and English Electric. There were an additional twenty-three firms involved, including the Compagnie Financier de Suez. Later the Bank of Montreal and the Royal Bank of Canada joined the group. Smallwood. *I Chose Canada*, pp.451-2.

<sup>46</sup>Government of Newfoundland and Labrador (GNL). "An Act to Authorize the Lieutenant-Governor in Council to Enter Into An Agreement with British Newfoundland Corporation Limited and N.M. Rothschild & Sons", National Archives of Canada, (NAC), CFL Co Papers MG28 III 73 Vol.35, (20 May 1953), Section 3 (a) and (b).

<sup>47</sup>GNL. "An Act to Authorize." CFL Co Papers, NAC, MG III 73 Vol.35 (20 May 1953), pp.6-8.

<sup>48</sup>GNL. "An Act to Authorize." CFL Co Papers, NAC, MG III 73 Vol.35 (20 May 1953), pp.20-3.

<sup>49</sup>Originally, seventy-two per cent of HFP Co was owned by BRINCO, while Hydro-Quebec owned seventeen per cent. The rest of the shares were divided between the Newfoundland Department of Resources and Rio Algomina Mines. To help finance the project, BRINCO sold general mortgage bonds to Hydro-Quebec, increasing its share to thirty-four per cent, leaving BRINCO with fifty-seven per cent and Newfoundland with nine per cent. The Newfoundland proportion appeared to be small, but one must take into account the fact that Newfoundland was to get eight per cent of BRINCO's gross profits. Indirectly, therefore, Newfoundland would benefit beyond its paltry nine per cent of shares.

D.J. McParland. "BRINCO and the Churchill Falls Development" an Address to the Canadian Club of Toronto January 23, 1967. CFL Co Papers, NAC, MG 28 III 73 Vol.1, p.1.

BRINCO. "BRINCO in Newfoundland: A Summary." NAC, CFL Co. Papers: MG 26 III 73 Vol.36, p.1.

<sup>50</sup>Smallwood. *The Time Has Come To Tell*. (St. John's: Newfoundland Book Publishers [1967], 1979), p.96.

<sup>51</sup>J.R.Smallwood to Assembly, 19 March 1964. "Newfoundland Hansard," p.1. (Unpublished), NLL.

<sup>52</sup>Smallwood to Assembly, 14 May 1964. "Newfoundland Hansard," p. 3. (Unpublished), NLL.

<sup>53</sup>GNL. "An Act to Authorize," p.12.

<sup>54</sup>Peckford. *The Past in the Present*, p.15.

<sup>55</sup>GNL. "An Act to Authorize," p.16.

<sup>56</sup>United States Department of Energy. *Energy Security: A Report to the President of the United States*. (Washington D.C.: United States Department of Energy, 1987), p.133.

<sup>57</sup>"Generation", *Electrical World: The Electric Century 1874-1974*. (New York: McGraw-Hill Publication, 1 June 1974),p.96.

<sup>58</sup>Leonard S. Hyman. *America's Electric Utilities: Past, Present and Future*. (Arlington: Public Utilities Reports Inc., 1988), p.87.

<sup>59</sup>"Generation", p.96.

<sup>60</sup>"Generation", p.96.

<sup>61</sup>Hyman. *America's Electric Utilities*, p.105.

<sup>62</sup>Hyman. *America's Electric Utilities*, p.97.

<sup>63</sup>Eberhard Graf von Matuschka. "The Blackout November 9th — That 'Could Not Happen.' *It Was Predictable!*." NAC, Pearson Papers MG 26 N4, File 550 Power Resources, (26 November 1965), p.2.

<sup>64</sup>John G. Diefenbaker. *Commons Hansard*, 25 January 1962, p.174.

<sup>65</sup>Diefenbaker to Smallwood, 22 February 1962. Smallwood Papers, CNA MUN Coll-075: File 3.10.014 Canada Prime Minister's Office 1960-63, pp.1-2.

<sup>66</sup>Smallwood to Diefenbaker, 8 March 1962. Smallwood Papers, CNS MUN Coll-075: File 3.10.014 Canada Prime Minister's Office 1960-63, p.1.

<sup>67</sup>Lesage had remained consistent in his views on transmission of Labrador power from his days as Minister in St. Laurent's cabinet. As early as 1956 Lesage stated that the development and "transmission of power from Labrador to any other province...[was] purely a provincial responsibility."

Jean Lesage. *Commons Hansard*, 29 May 1956, p.4410.

<sup>68</sup>Lionel Chevrier. *Commons Hansard*, 25 January 1962, p.189.

<sup>69</sup>John G. Diefenbaker, "Notes for Opening Remarks by the Rt. Hon. John G. Diefenbaker, Prime Minister at the Federal-Provincial Conference on Long-Distance Power Transmission," 19 March 1962. Smallwood Papers, CNS MUN Coll-075 File 3.23.043 Long-Distance Power Transmission (LDPT) 1962-1964, p.2.

<sup>70</sup>Arnold Peters. *Commons Hansard*, 31 January 1962, p.419.

<sup>71</sup>Peters, *Commons Hansard*, p.419. Peters quoted from an article in the 6 January 1962 issue of *Saturday Night* which stated that there existed less than 1 million horse power available in Ontario for future use. Of the 7,814,562 potential horsepower in the province 7,701,000 HP was already in use.

D.M LeBourdais. "Wanted a New National Policy: Power, Railway and Minerals the Key." *Saturday Night* (6 January 1962), p.11.

<sup>72</sup>A.E. Robinson, *Commons Hansard*, 31 January 1962, p.425.

<sup>73</sup>Peters. *Commons Hansard*, p.420.

<sup>74</sup>H.M. Horner. *Commons Hansard*, 31 January 1962, p.421.

<sup>75</sup>Horner. *Commons Hansard*, 31 January 1962, p.422.

<sup>76</sup>H.B. Rosenberg. "Minutes of Meeting of Committee on [LDPT]" 28 October 1964. Smallwood Papers, CNS MUN Coll-075, File 3.23.043 LDPT 1962-1964, p.2.

<sup>77</sup>Newfoundland's representative on the Committee, Gordon Pushie, explained the peculiar relationship to the then head of BRINCO, Robert Winters. While Quebec was the only province that did not participate directly, information was provided to Quebec on the same basis as the rest of the provinces. However, "Information from Quebec, [was] curiously enough, channelled back to the Committee through Quebec Hydro so that there [was] no direct official contact between Quebec and the Committee."

Gordon F. Pushie, "Letter to Hon. Robert H. Winters" 9 August 1965. Smallwood Papers, CNS MUN Coll-075, File 3.23.044 LDPT 1965-68, p.1.

<sup>78</sup>Philip Mathias. *Forced Growth: Five Studies of Government Involvement in the Development of Canada*. (Toronto: J. Lorimer, 1971), p.63.

<sup>79</sup>Smallwood. *I Chose Canada*, p.457.

<sup>80</sup>Gwyn. *Smallwood*, p.264.

<sup>81</sup>Smallwood. *I Chose Canada*, pp.460-1.

<sup>82</sup>Gwyn. *Smallwood*, p.256.

<sup>83</sup>Douglas H. Fullerton. "Quebec, Labrador and Newfoundland." *Forces*, (Special Issue Churchill Falls: March 1982), p.51.

<sup>84</sup>Smallwood to Assembly. *Newfoundland Hansard*, (20 May 1976), p.8305.

<sup>85</sup>The extent of Quebec's resentment toward Newfoundland's claims to Labrador was evident in René Lévesque's 1966 article in *Dimanche-Matin*. Lévesque claimed that Labrador was stolen from Quebec in the 1927 decision, and that it made Quebecers "sore in the Labrador." While he may have been resentful, Lévesque grudgingly acknowledged the strength of Newfoundland's claim.

As the riches of Labrador [emerged] from the long northern night, it [hurt] more year by year. But it [was] too late... Too late as maddening as it [was], for any official reconquest using peaceful means. Newfoundland not only [had] possession and rising profits, but the lawful and never seriously contested rights of ownership. It [was] a scandalous ownership from [the Quebec] viewpoint, but what [could they] do...after waiting until the right became eminently advantageous before giving it serious thought?

René Lévesque, "On Target." (translation), *Dimanche-Matin*, 11 September 1966, Smallwood Papers, CNS MUN Coll-75 File 3.23.005: Churchill Falls 1966, pp.1-2.

<sup>86</sup>Henry Borden. "Reflections." (Unpublished manuscript of memoirs, 1974), NAC Borden Papers NAC MG 30 A8 Vol.4. p.159.

<sup>87</sup>There would be an approximate reciprocity in the exchange of lands involving roughly 11,000 square miles. Such an offer was *de facto* recognition of Newfoundland's territorial claims to the Labrador watershed.

J.R. Smallwood. "Telegraph to Honourable Jean Lesage", 3 April 1964, Smallwood Papers CNS MUN 316.082 Quebec Government 1949-1971, p.2.

<sup>88</sup>Smallwood to Assembly, "Newfoundland Hansard." (Unpublished), 3 April 1964, p.8.

<sup>89</sup>In discussing the French in Quebec, Smallwood once commented, "the French Canadian is one of the most lovable human beings in Canada, but collectively he deserves a swift kick."

Gwyn. *Smallwood*, p.262.

<sup>90</sup>Borden. "Reflections," p.159.

<sup>91</sup>Interview. J.L. Churchill with the Honourable Mr. Justice William Marshall, 13 August 1997.

<sup>92</sup>The point is illustrated by the fact that when the Newfoundland government under Frank Moores nationalized BRINCO's Churchill Falls Labrador Corporation (CFL Co) in 1974, it did not achieve an improved bargaining position with Quebec. As a result the Lower Churchill portion of the river remained undeveloped as the province was unable to build transmission lines to sell the surplus energy that would have been produced by the project. The core problem of access to markets was not fixed by direct involvement by the Newfoundland government.

<sup>93</sup>Preece, Cardew & Rider. *Hamilton (Churchill) Transmission via Newfoundland*, December 1964. CFL Co Papers NAC MG28 III 73 Vol.46, File 400.201 Preece, Cardew & Rider The Government of Newfoundland and Labrador, December 1964., p.1.

<sup>94</sup>The cost, in Canadian funds, at the Canadian-United States border would be 4.03 mils/kwh at completion in 1974. Converting cost in Canada would increase the cost to 4.84 mils for energy delivered in Newfoundland, Nova Scotia, and New Brunswick. In the US it would cost 5.01 mils delivered to Boston and New York terminals.

Preece, Cardew & Rider. *Hamilton (Churchill) Transmission via Newfoundland*. CFL Co Papers NAC MG28 III 73 Vol.46, File 400.201 Preece, Cardew & Rider The Government of Newfoundland and Labrador, December 1964, pp.1-3.

<sup>95</sup>The optimum price was expected to be in the area of 4 to 4.5 mils/kwh US.

Acres Canadian Bechtel of Hamilton (Churchill) River, "Review of Preece, Cardew & Rider Report of December 1964 to the Government of Newfoundland Entitled 'Hamilton (Churchill) River Transmission Via Newfoundland' For British Newfoundland Corporation Limited": "Review of Pertinent Considerations on Alternates for the Development of Hamilton (Churchill) Falls Power" 20 January 1965. CFL Co Papers: NAC MG 28 III 73 Vol.46 File 400.201 Preece, Cardew and Rider Meetings, June 1964-August 1965, p.1.

<sup>96</sup>Without the possibility of meaningful profit, Acres considered if there were other incentives such as a cheap supply of power for the Atlantic region. This was rejected, as only 14% of power visualised by Preece, Cardew & Ryder was to be sold in the Atlantic provinces at an average cost of 4.84 mils. This represented a saving of 1.16 mils from the 6.0 mils/kwh otherwise available. The benefits to Newfoundland and the Maritimes would be marginal at best.

Acres Canadian Bechtel, "Review of Preece," p.3.

<sup>97</sup>Acres Canadian Bechtel, "Review of Preece," pp. 11-12.

<sup>98</sup>Acres Canadian Bechtel, "Review of Preece," pp. 14-15.

<sup>99</sup>André Bolduc. "Churchill Falls the Dream...and the Reality." *Forces*, (Special Issue Churchill Falls: March 1982.), p.40.

<sup>100</sup>K.H Kidd. "Letter to G. F. Pushie: National Power Network Studies." 5 August 1965. Smallwood Papers, CNS MUN Coll-075, File 3.23.044 LDPT 1965-68, p.2

<sup>101</sup>Harold Smith. "Ontario Hydro's Report Memorandum on National Power Network." 30 May 1966. Smallwood Papers, CNS MUN Coll-075, File 3.23.044 LDPT 1965-68, p.2.

<sup>102</sup>Smallwood to Lester B. Pearson, 7 June 1965. Pearson Papers, NAC MG26 NN3 Vol.205, File 552, NFLD, p.1.

<sup>103</sup>Diefenbaker. "Notes for Opening Remarks", p.5.

<sup>104</sup>In asking the question Baldwin drew attention to Pearson's previous address to the Commons on 10 February 1955 stating his approval of the use of section 92 (10) of the

British North America Act "when works like the [...] of this type [sic] were being considered for construction."

G.W. Baldwin. *Commons Hansard*, 6 May 1965, p.984.

<sup>105</sup>Baldwin. *Commons Hansard*, 6 May 1965, p.984.

<sup>106</sup>Diefenbaker and Pearson. *Commons Hansard*, 5 May 1965, p.959.

<sup>107</sup>Pearson *Commons Hansard*, ca. 15 February 1966, p.1222.

<sup>108</sup>Diefenbaker and Pearson. *Commons Hansard*, February 15, 1966, pp. 1228.

<sup>109</sup>Smallwood to Assembly. "Newfoundland Hansard." (Unpublished), 20 March 1964, p.30.

<sup>110</sup>Smallwood to Assembly. "Newfoundland Hansard." (Unpublished), 20 March 1964, p.31.

<sup>111</sup>Smallwood to Pearson. 29 September 1966. Smallwood Papers, CNS MUN Coll-075 File 3.10.016 Canada Prime Minister's Office 1966-67, p.1.

<sup>112</sup>Smallwood to Pearson, p.2.

<sup>113</sup>Smallwood to Pearson, pp.2-3.

<sup>114</sup>In his memoirs, Smallwood comments, "Not for a moment did I suppose that the designation of the project as national would be a solution of itself. The threat might, however, be more effectual than the reality."

Smallwood. *I Chose Canada*, p.467.

<sup>115</sup>Borden. "Reflections," p.166.

<sup>116</sup>Langevin Coté. *Heritage of Power: The Churchill Falls Development from Concept to Reality*. (St. John's: Churchill Falls (Labrador) Corporation Limited, 1972), p.43.

<sup>117</sup>Frederick W. Rowe. *The Smallwood Era*, p.32.

<sup>118</sup>Smallwood. *I Chose Canada*, pp.466-7.

<sup>119</sup>Cabot Martin, "Footnote to History: The Truth Behind the Churchill Falls Deal." *The Globe and Mail*, 23 November 1996, p. D2.

<sup>120</sup>A. Brian Peckford. "Telex to Prime Minister Pierre Trudeau", (7 May 1984), Churchill Falls File, CNS MUN, p.1.

<sup>121</sup>R.G.Robertson. "Memorandum for the Prime Minister:, Action by the Federal Government With Regard to Electric Power." Pearson Papers NAC MG26 N3 Vol. 206 File 558.1 Conf., 15 January 1965, p.2.

<sup>122</sup>Robertson, "Memorandum," p.3.

<sup>123</sup>Robertson. "Memorandum," p.4.

<sup>124</sup>N.A. "Smallwood Espy Last." Pearson Papers NAC MG26 N3 Vol.205, File 552 NFLD, 4 April 1965, p.2.

<sup>125</sup>Robert Bothwell. *Pearson: His Life and World*. (Toronto:McGraw-Hill Ryerson Limited, 1978), p.192.

<sup>126</sup>N.A. "Suggestions for a Liberal Promotional Campaign." Liberal Party of Canada Papers, file: Publicity Program 1961, NAC. Quoted from Joseph Wearing, *The "L" Shaped Party: The Liberal Party of Canada 1958-1980*. (Toronto: McGraw-Hill Ryerson Limited, 1981), p.34. Fn. 41.

<sup>127</sup>Federal-Provincial Working Committee, "Report to the Federal and Provincial Ministerial Committee on Long Distance Transmission: Regional and National Electric Transmission Systems for Canada -Stage II Assessment", 14 July 1967. Smallwood Papers, CNS MUN Coll-075, 3.23.044 LDPT 1965-68, p.9.

<sup>128</sup>Federal-Provincial Working Committee. "Report," p.12.

<sup>129</sup>Harold Horwood. *Joey*. (Toronto: Stoddart Publishing Co. Limited, 1989), p.197.

<sup>130</sup>Lévesque. "On Target," p.5.

<sup>131</sup>Smallwood. *The Time Has Come*, p.99.

<sup>132</sup>Philip Smith. *BRINCO: The Story of Churchill Falls*. (Toronto: McClelland and Stewart Limited, 1975), p. 292.

<sup>133</sup>Quebec agitated for, and received, the right to establish its own pension plan, the QPP. While the remaining nine provinces also had the option to do the same none bothered. Richard Simeon claims that the establishment of the QPP, at least originally, contributed to national unity in that a major clash between Ottawa and Quebec was avoided. There were, however, ramifications in granting Quebec vast powers over their plan. Quebecers looked to their own government for their pensions and changes would depend upon provincial approval. Thus, Simeon argues, "these concessions seemed to weaken the status of the federal government, and enhance that of the provinces." It would be erroneous to suggest that Quebec was the only province to benefit from the pension plan as all the provinces gained access to a vast new fund. Simeon, however, claims that "Quebec was the clearest victor. It had its own pension plan."

Richard Simeon. *Federal Provincial Diplomacy: The Making of Recent Policy in Canada*. (Toronto: University of Toronto Press, 1972), p. 257.

<sup>134</sup>John Burbidge. *Social Security in Canada: An Economic Appraisal*. (Toronto: Canadian Tax Foundation, 1987), pp. 25-6.

<sup>135</sup>Frank T. Denton, A. Leslie Robb and Byron G. Spencer. *The Future of the Canada and Quebec Pension Plans: Some Alternative Possibilities*. (Ottawa: Minister of Supply and Services Canada, 1980). p.7.

Canadian political scientist Richard Simeon stated that the fund, especially for Quebec, served to "increase the fiscal weight and independence of the provinces, and ease their dependence on the private bond market at a time of rising needs and high interest rates."

Simeon. *Federal Provincial Diplomacy*, p. 257.

<sup>136</sup>Smith. *BRINCO*, p. 292.

<sup>137</sup>Quebec Hydro-Electric Commission and Churchill Falls Labrador Corporation Limited, Draft Agreement for a Power Contract,[no.1] January 1968. CFL Co Papers NAC MG28 III 73 Vol.58 File 5, p. 1.

<sup>138</sup>Quebec Hydro-Electric Commission and Churchill Falls (Labrador) Corporation Limited, "Draft Agreement for a Power Contract [no.2] January 1968." CFL Co Papers NAC MG28 III 73 Vol.107, p.1.

<sup>139</sup>Quebec Hydro-Electric Commission and Churchill Falls Labrador Corporation Limited, "Draft Agreement for a Power Contract May 1968." CFL Co Papers NAC MG28 III 73 Vol.107 File Hydro-Quebec Power Contract Draft May 1968, p. 8. This concession would subsequently have ramifications when the Newfoundland government attempted to enact the "Water Rights Reversion Act" in 1982.

<sup>140</sup>The Council stated that "Without the guarantee of a utility like Hydro-Quebec to undertake the risk of building and operating the project and to buy virtually all of the power so as to ensure revenues to repay the loans, the lenders would have refused to finance such a massive project."

Economic Council of Canada. *Newfoundland: From Dependency to Self-Reliance*. (Hull: Minister of Supply and Services Canada, 1980), p. 121.



<sup>141</sup>Economic Council of Canada. *Newfoundland*, p. 121.

From the Newfoundland perspective, the most offensive sections state that Hydro-Quebec could claim full control of the project if CFL Co. should happen to default.

Smith. *BRINCO*, p. 292.

<sup>142</sup>Quebec Hydro-Electric Commission and Churchill Falls Labrador Corporation, "Power Contract Between Quebec Hydro-Electric Commission and Churchill Falls (Labrador) Corporation Limited, May 12, 1969. CFL Co. Papers NAC MG28 III 73 Vol.11 File 4 Quebec Hydro, p. 7.

<sup>143</sup>Quebec Hydro-Electric Commission and Churchill Falls (Labrador) Corporation Limited, "Draft Agreement... [nos. 1&2] January 1968," CFL Co. Papers NAC MG28 III 73 Vol. 107, p. 2.

<sup>144</sup>Quebec Hydro-Electric Commission and Churchill Falls (Labrador) Corporation Limited, "Draft Agreement...May 1968," CFL Co. Papers NAC MG 28 III 73 Vol.107, p.10.

<sup>145</sup>In January 1966 in the House of Assembly Liberal government member, Steve Neary, stated that,

Should BRINCO fail in its untiring efforts to bring about [that] colossal achievement in the foreseeable future, then....the only other way to guarantee success [was] to nationalize Churchill Falls. [He felt] certain [that] arrangement would meet with the approval of the people of Newfoundland, and would be in the interest of the Province and Canada as a whole.

Steven Neary to Assembly. "Newfoundland Hansard". (Unpublished), 18 January 1966, pp. 7-8.

<sup>146</sup>Mathias. *Forced Growth*, pp. 79-80.

<sup>147</sup>Brian Peckford to Assembly. *Newfoundland Hansard*, 16 April 1980, p. 2153.

<sup>148</sup>Joseph Bourbeau. "Clarifying the Issue of Churchill Falls", 30 September 1982 CFL Co. Background File, NLL, p. 6.

<sup>149</sup>Bourbeau. "Clarifying the Issue," p. 6.

<sup>150</sup>Bourbeau, "Clarifying the Issue", p.7.

The deal was advantageous to Hydro-Quebec as BRINCO's sponsorship of the hydro project meant Hydro-Quebec would receive substantial benefits without having to finance the project exclusively from its own financial resources. In addition, the project allowed Hydro-Quebec to delay construction of other sites. Consequently, Hydro-Quebec was relieved of the necessity of raising capital on the money markets for other projects. Such advantages, however, were contingent upon Hydro-Quebec being guaranteed a low and stable price over an extended time. Without the guarantee Hydro-Quebec would not have become involved. *Ibid.*, p. 5.

<sup>151</sup>Bourbeau. "Clarifying the Issue," p. 4.

<sup>152</sup>Bourbeau. "Clarifying the Issue," p. 4.

<sup>153</sup>Simon Bernard. "Canadian Utilities Toe US Regulators' Line: Hydro-Quebec and Ontario Hydro Forced to Either Open Markets or Face Loss of Exports South of the Border." *Financial Post* (v10, 30 July 26/28 1997) p. 4.