

NEWFOUNDLAND HISTORY FOR TREASURY MANAGERS

by

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Presented at the Treasury Management Association of Canada
26th Annual Conference and Trade Show

September 22, 2008

Fairmont Newfoundland

St. John's, Newfoundland and Labrador

CHECK AGAINST DELIVERY

Thank you Carmen and good day everyone. A special welcome to those of you visiting our province for the first time.

In the brochure advertising this conference, I note that there were some significant events in Newfoundland history.

Since most of the audience are CFAs (Come From Aways), I thought I'd use this opportunity to give you a brief history lesson on Newfoundland so you can better enjoy the rest of your stay.

As Carmen indicated in introducing me, my home town is Freshwater Carbonear. It's a small town about 1 hours drive from here with a population less than 200. My family has lived there for over 250 years. Something I'm proud of. I'm also very proud to say, I'm the first member of my family to have been born Canadian – my brother who's a year older was born before Newfoundland joined Canada. In Newfoundland we're close to our history.

Many of you will have had the opportunity to do some sightseeing over the last few days – hopefully most of you will have that opportunity before you leave.

If you start on Signal Hill you can look down on the city which has over 500 years of European presence. Many battles were fought there including the last battle between the French and English in North America. From Signal Hill you can see Cape Spear to the South East – the most easterly point in North America. To the north is Quidi Vidi Lake – which hosts the oldest sporting event in North America – the annual St. John's Regatta. Stroll down from this hotel to Water Street and you'll see the National War Memorial – Newfoundland being the national. Across from the war memorial is a plaque marking the spot where the British Empire began with a claim to Newfoundland in 1583. Stroll up Military Road and see the Colonial building which was the legislative building from colony, to country, to province.

As an island on the eastern edge of North America, it should come as no surprise that our history is dominated by European exploration of North America and American involvement in Europe.

The first European settlement in North America was established by the Vikings at L'Anse aux Meadows on the northern tip of the island around the year 1,000 A.D. While this lasted only several years, it was certainly long enough for the first Europeans to be conceived and born in North America.

Newfoundland was officially rediscovered by John Cabot in 1497 and, over the following centuries, was used by many European nations as a fishing station and a jumping-off point for exploration of North America. In 1583, it was officially claimed as an overseas colony of Britain, marking the beginning of the British Empire.

However, until the mid 1700s, the island was more of a seasonal fishing station than a colony in the traditional sense. While the absence of an official government made early Newfoundland distinct as a colony, it did not mean the island existed in a state of anarchy. Respect for law and order was administered by the fishing admirals, usually at the whipping post or the gallows. Many Newfoundland families can trace their roots back to this period. Like many Newfoundland families, the Marshalls have been in the same outport community since at least the 1750s.

In the early 1800s, expansion of the Newfoundland fishery transformed the colony. Increased immigration boosted the population dramatically and new political institutions emerged. As in the American colonies a century earlier, the introduction of taxation led to discontent among the people and a demand for elected representation. Responsible Government was granted to Newfoundland by Britain in 1855.

As treasurers you may find it interesting that, for much of the 19th century, “Newfoundland currency” was dried salt cod. Merchants carried out their business on what was called the “truck” system, outfitting fishermen with imported food, clothing, fishing gear and other supplies in the spring of the year which the fishermen, in turn, paid for with dried fish in the fall. During years when cod were scarce, merchants oftentimes over-extended credit to fishermen to allow them to survive the winter months. Merchants had to absorb losses when the fishery failed or fishermen otherwise were unable to settle their debts. However, the merchants had a guaranteed

clientele through the truck system which maximized their opportunity for profit. The price of the goods that the fishermen received on credit was set at the end of the fishing season, when a culler would grade the fishermen's catch and determine how much it was worth.

The highest quality fish generally sold well in Europe where it was traded for salt, fruits, nuts and wine. Brazil bought the intermediate-grade cod in exchange for cotton and coffee. The West Indies took the lower-grade fish, because of its lower price, and in return exported sugar, molasses and rum to the colony. In essence, the fishing industry operated on the barter system locally and internationally.

In 1894, Newfoundland suffered a Bank Crash when two of the three banks in operation in the colony had to close their doors. Large questionable loans had been made to merchants, many of whom were directors of the banks. Corporate governance wasn't foremost in people's minds!

After the Bank Crash, some Water Street retailers allowed customers to deposit funds in interest-paying accounts which were used by customers to make purchases from the stores. This banking service became so popular that some companies were in debt to their customers instead of the reverse.

Four years after the Bank Crash, with the completion of the Newfoundland Railway from St. John's to Port aux Basques, more Canadian banks began to set up branches in outports and Canadian currency became legal tender in Newfoundland.

The First World War extracted a heavy price from Newfoundland in financial and human resources. The Newfoundland Regiment, then a part of the British Army, served in the disastrous Gallipoli Campaign before being evacuated along with the British, Australians and New Zealanders. From there they went to participate in the opening of the Battle of the Somme on July 1, 1916 – the bloodiest battle in British history. At the Somme, the Newfoundland Regiment experienced a 92% casualty rate and received the designation “Royal”.

Newfoundland's war effort added substantially to the public debt the country had incurred to build and operate the Railway. A decline in the price of salt cod in global markets added to the financial woes. The Government continued to borrow and go deeper in debt up to the Great Depression in 1929.

In 1931, Newfoundland was recognized as one of the five original dominions of the British Empire along with Canada, Australia, New Zealand and South Africa under the Statute of Westminster. The Irish Free State was also treated as a "Dominion" under the Statute. However, dismal economic conditions combined with government corruption led to civil unrest in Newfoundland which culminated in the Riot of 1932. When the government realized it could not correct the country's fiscal problems, Canada was prompted to intervene to protect its interests, as was Britain, which feared for the credit of the empire as a whole. Canada and Britain agreed to help fund Newfoundland's debt payments but Newfoundland's Responsible Government was replaced by a Commission appointed by Britain. In essence, Newfoundland reverted to being a colony. Newfoundland bears the distinction of having been the only country in the Commonwealth to voluntarily give up its right to Responsible Government. Commission Government would remain in place for the next 15 years.

By the mid 1930s, Newfoundland's natural resources, particularly iron ore from Bell Island in Conception Bay, were in great demand especially by Germany and things began to look promising.

Indeed, the Second World War brought economic prosperity to the country. The construction of Allied military bases, primarily American, created thousands of jobs for local workers and helped boost government revenues. Major facilities built by the Americans included an army base at St. John's, a naval base at Argentia, and an air force base at Stephenville. Canada established a naval base in St. John's and air bases at Gander, Torbay and Goose Bay. There were approximately 10,000 American and 6,000 Canadian personnel in Newfoundland at the height of the military occupation in 1943.

By 1945, Newfoundland had its financial house back in order and was ready to return to Responsible Government. However, a segment of the population sought other options including Confederation with Canada.

Confederates urged Newfoundlanders to embrace the security of the Canadian family allowance and old-age pension. They had the backing of the Canadians and British governments.

The anti-Confederates urged Newfoundlanders to “have faith” in themselves and country, to protect its economy from Canadian taxes and competition.

During the 1948 referendum campaigns, support for Responsible Government was received from the Economic Union Party, a political organization formed to promote an economic union with the United States. The party supported Responsible Government in hopes that once Newfoundland regained independence, negotiations with the U.S. could begin. The party argued that closer economic ties with the Americans would give Newfoundland the economic stability it needed to remain an independent country with Responsible Government.

In the June 1948 vote, a return to independence received the most votes but not a majority. A second runoff vote was held the following month with approximately 52% of voters casting their votes in favour of Confederation. The margin was less than 7,000 votes and there was a clear division between the St. John’s region, which was strongly for independence, and the more rural areas, which were not. On March 31, 1949, Newfoundland became the tenth province of Canada. It had a balanced budget, zero debt and a cash surplus of more than \$40 million.

In 1949, many areas of Newfoundland still did not have electricity. In some smaller communities, basic services, including electricity, weren’t available until the ‘60s and ‘70s. For many people, the “miracle” of electricity ranked in wonder of the baby bonus and old-age pension.

It should be noted, however, that St. John’s and areas of the Avalon had been among the first areas in the world to receive electricity. It was here in St. John’s that Fortis had its beginnings

over 120 years ago with the formation of the St. John's Electric Company in 1885. That was only a few years after Edison introduced the first commercial use of electricity for lighting. By the late 1880s, St. John's Electric was supplying electric lighting to about 50 companies and fuelling 25 street lamps in the port city. Electricity was also being developed for public transportation, mainly the St. John's electric street railway system.

The St. John's Electric Company would eventually evolve into Newfoundland Power, a wholly owned subsidiary of Fortis. These parts of Newfoundland were among the earliest to have electricity service due, in part, to the presence of American electrical engineers working to service the transatlantic subsea communications cable.

As North America's most easterly point, Newfoundland played an important role and helped revolutionize international communications. In the mid 1800s, there was a drive to get European news to the United States as quickly as possible. Early on, St. John's was seen as a transfer point where messages arriving by sea from Europe could be telegraphed to the U.S. A telegraph system was built overland from St. John's to Cape Ray on Newfoundland's west coast and, by 1856, a submarine line was completed to Cape Breton which connected to a line to New York. News arriving in Newfoundland from Europe by steamships was telegraphed ahead to the U.S.

The first successful transatlantic telegraph cable was laid a decade later in 1866 from the west coast of Ireland to Heart's Content, Newfoundland. Radio joined the long-distance communication network in the 20th century after Marconi received the first transatlantic wireless signal in 1901 at Signal Hill here in the capital city from Cornwall, England.

As in other parts of the world, the demand for electricity grew rapidly in Newfoundland in the 20th century. In the decades following Confederation, Newfoundland experienced rapid social and economic change. The construction of roads, highways and government buildings contributed to a construction boom. Standards of living were rising. New homes and growing towns all contributed to a huge increase in electricity demand, particularly during the '60s and '70s. In 1974 alone, electricity consumption in Newfoundland surged more than 20%.

In 1966, the small investor-owned utilities in this province amalgamated to become Newfoundland Light & Power, which served almost 89,000 customers.

Fortis was established as the parent company of Newfoundland Power in 1987. Initially, Fortis was seen more as a vehicle for expansion into other businesses in Newfoundland rather than as a vehicle for the expansion of the electric utility business outside the province. That began to change in 1990 when we became the largest shareholder of Maritime Electric on Prince Edward Island. It became a wholly owned subsidiary in 1994. Through that acquisition, Fortis demonstrated that it had skills that could be more productively employed outside Newfoundland. We haven't looked back since then.

In 21 years, Fortis has grown from a single utility with assets of \$390 million to an internationally diversified company with assets approaching \$11 billion and annual revenues projected to exceed \$3.5 billion this year. Our common share market capitalization is approximately \$4 billion.

Fortis is the largest investor-owned distribution utility in Canada. Our main business is the ownership and operation of regulated utilities. Last year, we expanded into the natural gas distribution business when we acquired Terasen for \$3.7 billion. Terasen is one of the largest natural gas distributors in Canada, serving almost 1,000,000 customers or 96% of gas users in British Columbia.

Fortis owns 8 electric utilities. Besides Newfoundland Power and Maritime Electric, we own FortisAlberta, FortisBC, FortisOntario, Belize Electricity, Caribbean Utilities on Grand Cayman and Fortis Turks and Caicos. Our electric utilities serve more than 1,000,000 customers across Canada and in the Caribbean.

The Fortis Group of Companies employs approximately 6,000 people, including almost 1,200 here in Newfoundland.

As the only public company of significant size in Newfoundland, we are frequently asked, “Why do we stay here?” It’s simply because our roots are here and many of our key people have chosen to remain here.

Business can be tough in Newfoundland but, if you develop a business model that is successful here, chances are you would be even more successful elsewhere.

In business, strong leadership, good ideas and hard work are the basis of most competitive advantages. All other competitive disadvantages, including geography, can be overcome.

The Fortis business model is unique in many ways, from our corporate culture to our strongly decentralized structure.

Many people are surprised to learn that, for a corporation of our size, Head Office has a staff of 16. A strongly decentralized management structure is absolutely necessary when your operations are separated by thousands of miles of geography with substantially different environments. The distance from St. John’s to Vancouver is not much less than St. John’s to Moscow. At those distances, senior management must have the authority to act independently. Our corporate philosophy is that, to be successful, we must have decision making close to our customers.

At Fortis we place considerable emphasis on employee development and normally promote from within to fill executive positions. Many of our senior executive and management people have long tenure with us. Their expertise and knowledge place them among the best in their fields. We know and trust one another.

IN ANY ORGANIZATION, NOTHING MATTERS MORE THAN THE QUALITY OF YOUR PEOPLE.

The people of Newfoundland have in their history overcome much adversity. We have survived through co-operation and self-reliance.

Hard work, determination, loyalty, honesty and strength of character are values we hold dear at Fortis. Our culture reflects our history.

As you discuss many of the issues facing you as treasury managers today, you might consider the importance of these values.

Thank you for your attention. Have a productive conference and enjoy your stay here.