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for **The End of Monopoly: A New World for Inco**

The Advent of Nickel: From Discovery to Mid-20th Century

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Canadian Business History

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This reading was prepared by Joe Martin to supplement the class discussion on the Inco case.

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The Advent of Nickel: From Discovery to Mid-20th Century

The International Nickel Company (Inco) is one of Canada's oldest mining companies and the only Canadian company ever to be part of the Dow Jones Industrial Average (DJIA). Nickel was discovered by accident in the Sudbury basin in 1883 when the rail lines for the CPR were being driven through the hard rock country.

Despite the discovery two decades earlier, the company was not formed until 1902. J. Pierpont Morgan, one of the richest and most powerful men in the world, had recently created US Steel in the world's first billion-dollar deal. Morgan decided he wanted to control his major supplier of nickel. In the late 1920s Inco became part of the DJIA and was re-incorporated as a Canadian company.

Back in those days, Inco was not really a Canadian company. Although it was true that Inco had a major refinery at Port Colborne in Ontario's Niagara region, in addition to the mines in the Sudbury area, it should be remembered that the refinery only came to Canada for two reasons. The first was due to intense lobbying on the part of the Ontario government. The second was known as the Deutschland Incident of 1916, when it was suspected that Canadian nickel was being shipped to Germany via the United States and being used to kill Canadian soldiers during World War I.

The great majority of the company's shares were held in the United States, with a smaller block in the United Kingdom, although three Canadian businessmen had invested heavily in the company in 1928. They were: J. W. McConnell, the investment dealer and philanthropist from Montreal who represented the Holt¹ interests; J. B. Bickell, the Toronto mining magnate and President of the McIntyre-Porcupine gold mines; and James Richardson,² the Winnipeg merchant and financier with a strong interest in mining.

Inco, in addition to being owned outside of Canada, had mostly U.S.-based customers. Canada contained the ore body, located in the great Sudbury basin, and the labour force was Canadian. However, control of the company came from the United States, even after re-incorporation. The company had been re-incorporated in Canada, not because Canada was attractive, but because the principal shareholders wished to avoid anti-trust action in the United States.

What follows is a brief history of Inco from its beginnings to the 1950s. In examining the non-Canadian nature of this company, we should remember that Canadian mining companies today — and Canada is a centre of mining in global terms — are often viewed sceptically in the countries in which they are mining, just as Inco was viewed for many years by Canadians.

¹ Sir Herbert Holt was not only President of the Royal Bank but possibly the most powerful Canadian businessman ever, with wide interests in pulp and paper, textiles, utilities, coal and steel industries.

² Richardson's son, James, joined the Board of Inco in 1960 and held a Board position until 1968 when he was appointed to the Trudeau cabinet. He was succeeded on the Board by his brother George.

The Background to the Formation of the International Nickel Company

In the 17th Century, metallurgists were puzzled by a rock that looked like copper but which would not yield copper. They thought that Satan had made the rock to bedevil them. Thus, they named the rock after ‘Old Nick’ (Satan), calling it *Kupfernickel*, meaning ‘the devil’s copper,’ an entity from which no copper can be made. In the early 19th Century, European production of nickel began, and the mineral was called “German silver.” After 1860, nickel was used increasingly for token coinage.

Total world demand for nickel at that time was only a few million pounds per year. Most of this was supplied by mines owned by Rothschild’s *la Société Le Nickel* on the island of New Caledonia, a French penal colony in the South Pacific.

All of this changed when a new discovery was made. When just a small quantity of nickel was melted together with steel, the nickel prevented the steel from rusting. This marvel led to the development of a product we take for granted nowadays — an entity known as stainless steel. In the 1880s, the United States Navy became interested in this discovery and its application for armour steel plate. Once the Navy learned that nickel had the potential to provide a defense against missiles that pierced armour, it became interested.

“One million dollars of federal government money, a large sum for the time, was devoted to testing nickel’s possibilities. The trials were a success — nickel-steel was indeed a formidable defensive material. Once its benefits had been proven, there remained only the question of getting hold of sufficient nickel.”³ As a future President of International Nickel Company (Inco) stated, “The introduction of nickel-steel into armaments was the single most important factor in the development of the nickel industry.”

In 1883,⁴ nickel was discovered in the Sudbury area of Ontario, almost by accident, during the construction of the Canadian Pacific Railway (CPR) across the great Canadian Shield. This discovery turned out to be the most extensive nickel find in the world. At the time, however, the discovery did not arouse great interest, because nickel had few uses. Copper, on the other hand, was highly sought after, especially with the demand for copper wire that was created by the new technologies of telegraphy and then telephones.

Inco’s history dates back to 1886, when Samuel J. Ritchie and a group of Ohio partners formed a corporation in Cleveland, the Canadian Copper Company, to mine the nickel-copper deposits of the Sudbury region.⁵ Canadian Copper Co. owned the minerals in the ground in Sudbury because post-Confederation politicians succumbed, in 1869, to demands of the Ontario mining community for unencumbered title to mineral lands.⁶ A visiting correspondent from the *Times* of London wrote, “With a supineness which it is difficult to understand and scarcely possible to justify, the Canadians allow strangers to reap the profits which the mines...yield.”⁷ Although the mining itself occurred in Canada, all processing and refining took place in the U.S.

³ P. 188, *Mining in World History* by Martin Lynch.

⁴ Six years earlier, a nickel mine in Orford, Quebec was purchased by W.E.C. Eustis. Following this purchase, Orford Nickel Company, a predecessor company of Inco, was organized. Robert M. Thompson became general manager. A smelter was established in New Jersey in 1881 and Thompson bought out Eustis’ interest.

⁵ Ritchie, among other things, lobbied both the U.S. and Canadian governments to reduce or eliminate tariffs on mineral resources.

⁶ Mining regulations were tightened in the 1890s and property was subjected to royalty or enforced development.

⁷ p. 160 of *Times* Correspondent W. Fraser Rae’s book *Newfoundland to Manitoba*.

The Canadian Copper Co. started open bed or heap roasting, as a primitive method of smelting. This process involved putting raw ore onto layers of cordwood, setting it aflame, and letting it smolder for several months. This work began in 1888 at Copper Cliff, a town near modern-day Sudbury. Since Canadian Copper lacked American refining facilities, the company partnered with a New Jersey-based copper and iron smelting company, Orford Co, which had an economical method of refining copper. The two companies signed a contract for Canadian Copper Co. to supply Orford with 1,000 pounds of nickel-copper matte (a semi-purified metal produced by the first stage of the smelting process.)

The Ontario government appointed a Commission to enquire into mineral resources in 1888, and Sudbury was featured in the review. The decision to establish a Royal Commission was made as a result of a shift in thinking at the provincial level. Whereas in the past, Canadian federal and provincial governments had been meek vis-à-vis the Americans and their extraction of Canadian minerals, those governments were now becoming more pro-active in order to promote the processing of those minerals on their own soil. The Commission marked a change in official thinking and was the response to a growing interest in the so-called Manufacturing Condition, an Ontario version of the National Policy. This “condition” required that minerals extracted from Ontario soil be processed and refined at home, otherwise the processing and refining company would be subject to tariffs.

One of the challenges faced by the Ontario government in bringing processing of Ontario ore to Ontario rather than having it shipped to the United States in raw form were Canadian and American government policies relating to tariffs and duties. Nickel ore and partly refined nickel “matte” were admitted duty-free by the American authorities, whereas refined nickel carried a 10-cents-per-pound charge. The Canadian government tried to assist Ontario with this challenge by eliminating a 30% duty on mining and smelting machinery as well as removing a \$75 per ton duty on smelting coke.

This issue of tariffs on refined nickel became more important in the 1890s when metallurgical research led to the development of new processes for separating copper and nickel. These new processes facilitated the opening up of the Sudbury deposits on a large scale. In a related development, Orford entered the European market and challenged the Rothschild company’s dominance there. This competition resulted in a price war that lasted from 1892 to 1895.

Once the price war was over and the new development process was in place, production and sales of Sudbury nickel jumped more than 80% between 1895 and 1900 (from 3.9 million pounds to 7.1 million pounds). Sales were no doubt helped by the demand for nickel created by the Battles of Manila Bay and Santiago de Cuba in the Spanish American War of 1898. “American warships clad in nickel steel armor destroyed almost the entire Spanish fleet without loss of a single vessel.”⁸

As the distinguished historian Michael Bliss notes, “By 1900, military demand for nickel-steel in the US and Germany was stimulating sale of Sudbury nickel, even as the smelting process denuded the countryside with sulphuric corrosives. . . . Foreigners dominated Sudbury because they had the technology and marketing ability to refine and sell what was otherwise useless rock.”⁹

By 1901, the Sudbury area mines employed over 2,000 men, compared to less than 700 a decade earlier. Wages had also increased three fold.¹⁰

⁸ p. 121, *For the Years to Come* by John F. Thompson and Norman Beasley

⁹ p. 316, *Northern Enterprise* by Michael Bliss.

¹⁰ p. 150, *op. cit.*, Thompson.

The Creation of the International Nickel Company

In 1902, one of the most powerful figures in American business history entered the picture. J. Pierpont Morgan's newly created US Steel (the world's first billion-dollar company) made a whopping \$10 million purchase. US Steel acquired Canadian Copper Co, Orford Copper Co., and a number of non-operating companies with mining rights in Sudbury Basin and New Caledonia. This organization formed the International Nickel Co., which was incorporated in New Jersey on January 6.

As O.W. Main notes, "Canadian Copper owned the largest mines and Orford had an economical method of refining the metal, and more importantly, the market contacts."¹¹ US Steel appointees, plus a representative from Sullivan & Cromwell, the law firm that had engineered the acquisition, dominated the new nickel company's board. For J. Pierpont Morgan, the acquisition was an important step, since the nickel companies were major suppliers to US Steel.¹²

The owner of the Orford smelter was Colonel R.M. Thompson, a former naval officer. Thompson became Chairman of the new company, which was dominated by US Steel executives. Ambrose Monell of Monell metal fame was elected President. Robert C. Stanley, future long term President, was appointed superintendent of the New Jersey works.

At the time of the International Nickel Company's creation in 1902, the market was shared, by agreement, among three major players. They were: International Nickel; the French company Le Nickel, which had deposits not only in New Caledonia but also in Norway; and Mond Nickel Company, the English organization, which possessed both a refining process and contracts in the European market.

In most major timelines of Canadian Business History the creation of the International Nickel Company is listed as the first corporate development of the 20th Century. The 19th Century refers much more to the Hudson's Bay Company, the CPR and Eaton's. Inco is much more similar to the Hudson's Bay Company than to the CPR or Eaton's, because, like the Bay, Inco was previously owned by foreign capital and its markets were outside Canada. Only its resources and its work force were Canadian.

¹¹ p. 255, "International Nickel: The First Fifty Years" by O.W. Main, Director of the School of Business, University of Toronto in *Canadian Business* edited by David S. Macmillan, McClelland and Stewart, 1972

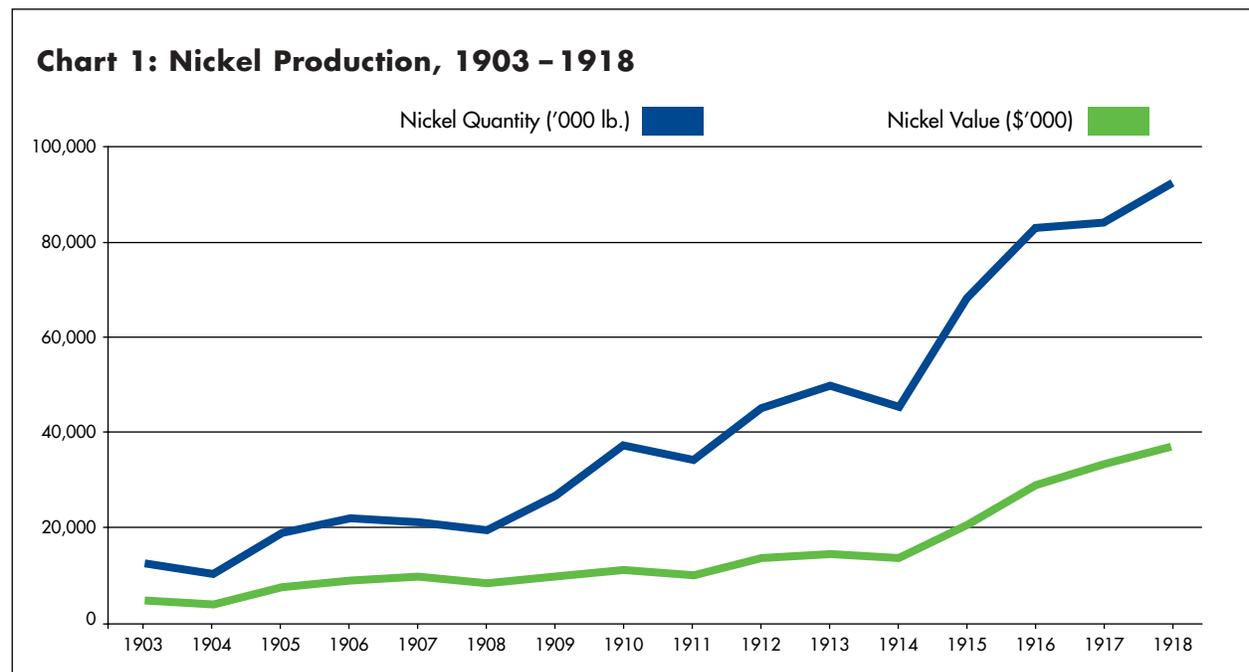
¹² One of the Directors was Joseph Wharton, co-founder of Bethlehem Steel and founder of the Wharton School at the University of Pennsylvania. Wharton was the first American refiner to produce a malleable nickel (p. 21 of John Thompson's 'For The Years to Come'). Another was Charles M. Schwab, first President of US Steel and founder of Bethlehem Steel.

The Armament Boom and 'The Nickel Question'

The 1905 *Commercial Gazetteer of the World* states that “there are along the district North of Georgian Bay great deposits of nickel and copper ...the only important supply of this metal so far known in America, and probably the most extensive in the world;” and went on to add that New Caledonia “abounds in minerals: nickel is very important.”¹³

But as Viv Nelles writes in *The Politics of Development*, Canada had permanently overtaken New Caledonia as the world’s most important source of nickel by 1905, and by 1910 Canada was producing three times as much as its rival. Nelles goes on to point out that the ‘poisonous pall that weighed down upon Sudbury’ could not ‘hide the fact that the really important jobs were being exported, with the semi-finished matte, to the United States....popular opinion was summed up in the Toronto *Telegram’s* tart observation: “A few boarding houses around two or three holes in the ground, plus Sudbury, represents all that Ontario has to show for a monopoly of 90 per cent of the world’s nickel supply.”¹⁴

Shortly after the creation of the International Nickel Company, war clouds gathered, and World War I eventually broke out. As well, new applications for nickel were introduced in the various armed forces, including the new Air Force. By 1913, Germany accounted for 57% of International Nickel’s sales outside the United States. The extraordinary demand for nickel can be seen in Chart 1 (below). Between 1903 and the outbreak of war 10 years later, nickel production had increased four fold. When war was declared, Canada was nearly the sole supplier. Therefore production nearly doubled again during the war, although price increases did not keep pace with production.



¹³ pp.235 & 215 of *The Commercial Gazetteer of the World*, 1905.

¹⁴ p. 328, *The Politics of Development* by Viv Nelles.

This period was characterized by these two separate, but important developments; the armament boom and what came to be known as ‘the Nickel Question.’ These two developments became intertwined in what became known as the ‘Deutschland affair’.

Ontario’s concerns over the export of raw, unprocessed materials was not restricted to nickel; it applied to electrical power as well as to mining and forestry products. Many people wanted the raw material to be processed in Ontario through the so-called ‘manufacturing condition’ — Ontario’s equivalent of the National Policy. However Ontario was singularly unsuccessful in having Ontario’s mineral products generally, not just nickel, ‘manufactured’ in Ontario. Americans wanted the products manufactured in the U.S., where those products were consumed. The U.S. therefore imposed high tariffs on processed goods and low tariffs on unprocessed goods — such as nickel-matte — which in essence is nickel in raw form.

When Great Britain declared war against Germany in 1914, Canada — as part of the British Empire — was immediately part of the war as well. However, the United States remained a neutral nation until 1917. Before the war Germany had stockpiled Canadian nickel. Once the war was on, Germany needed more nickel for armaments. Vast amounts of Canadian nickel were being shipped to the neutral U.S. The question was: where did the nickel go from there? It was deduced that Germany was the recipient nation.

Since Krupp, the German arms manufacturer, held an equity position in International Nickel, allegations were made that ‘Canadian nickel is being shipped from the United States to the Krupps to be made into bullets aimed at British soldiers.’

In September 1915, the Ontario government appointed the Royal Ontario Nickel Commission. George Thomas Holloway, vice-president of the British Institute of Mining and Metallurgy and a renowned scientist, chaired the Commission. The other two members were W. G. Miller, the provincial geologist, and T.W. Gibson, the Deputy Minister of Mines.

At the time, the Minister of Mines and later Premier of Ontario, Howard Ferguson, who was responsible for appointing the Royal Commission, wrote to the Prime Minister, “It was not only important from a commercial standpoint, but essential from an Imperial standpoint, that steps should be taken to bring about refining of nickel ore in Canada....”

The appointment of a Royal Commission prompted International Nickel President Ambrose Monell, in January, to announce that Inco would build a refinery in Canada at some time in the future when the company thought it appropriate. Part of the reason for the announcement was that the Ontario government was working hard to develop its own refining technology.

In the 1916 legislative debates, the Official Opposition was critical of the government’s lack of control over nickel and stated, “The nation that controls the nickel supply controls the future of naval armaments” In July, Ferguson announced that Ontario had obtained two patents for different refining methodologies and that all nickel should be refined in Ontario using Ontario government processes, for which International Nickel and others would have to pay.

International Nickel began to realize that although it was American controlled with American customers, it might have to do something in Ontario, given the anti-International Nickel feelings that were being exhibited both in the legislature and by the government. An additional problem presented itself to International Nickel: a new competitive player appeared on the scene, the British American Nickel Corporation. Dr. F.H. Pearson, a founder of modern day Brascan, had founded British American before the war. Pearson had teamed up with the railway magnates, William Mackenzie

and Donald Mann, to buy out the Dominion-Nickel Copper Company. Included in the sale were rights to a new Norwegian refining process. Despite the fact that British American's ore body was not as good as that of International Nickel, this new competitor's refining process was better.

Just as Ontario had established a Royal Commission, the Government of Canada had established a Dominion Munitions Resources Commission. This body insisted that International Nickel should refine in Canada and that money should be supplied to British American to help establish a refinery. Faced with this level of public and government pressure, on July 20, 1916, International Nickel announced that it would build a nickel refining plant in Ontario, but only if the company had full cooperation from the Ontario government. The company also stipulated a number of conditions for building.

This did not impress the government, which now felt that International Nickel could be ignored since British American Nickel was on the scene.

In August 1916, news reached the province of Ontario revealing that a German submarine, the *Deutschland*, had slipped into an American port and left with a cargo of refined Ontario nickel. During the 'Deutschland affair' the provincial opposition party won a seat in a local by-election by charging that the government was doing nothing to prevent the shipment of Ontario nickel to Germany. At this point "governmental insistence replaced mild urgings. If Inco refused to give up its position behind the United States tariff wall, it might find its mines expropriated at the worst, or financial support given to its competitors at the best."¹⁵

That same month, International Nickel took steps to buy a site for a refinery in Port Colborne, near Niagara Falls, a key source of hydro-electric power. Access to such power was seen as vital to a refinery in meeting its demands for electrical energy.

In March 1917 the Nickel Commission released its report. Based on this document, the Ontario government introduced legislation requiring that all minerals extracted from Crown resources be refined in Ontario. In 1918 International Nickel's Port Colborne refinery became operational.¹⁶ Clearly, the company had a lot to learn about public relations, especially during wartime. International Nickel Co. was depicted in editorial cartoons, along with other natural resource sectors of the economy, including Timber Limits, Water Powers, and Pulp Woods, as ripping off the Toronto taxpayer. Nickel¹⁷ is depicted as carrying off a huge sack of money while the average taxpayer makes do on very little.

1919-1929 – The Volatile Decade

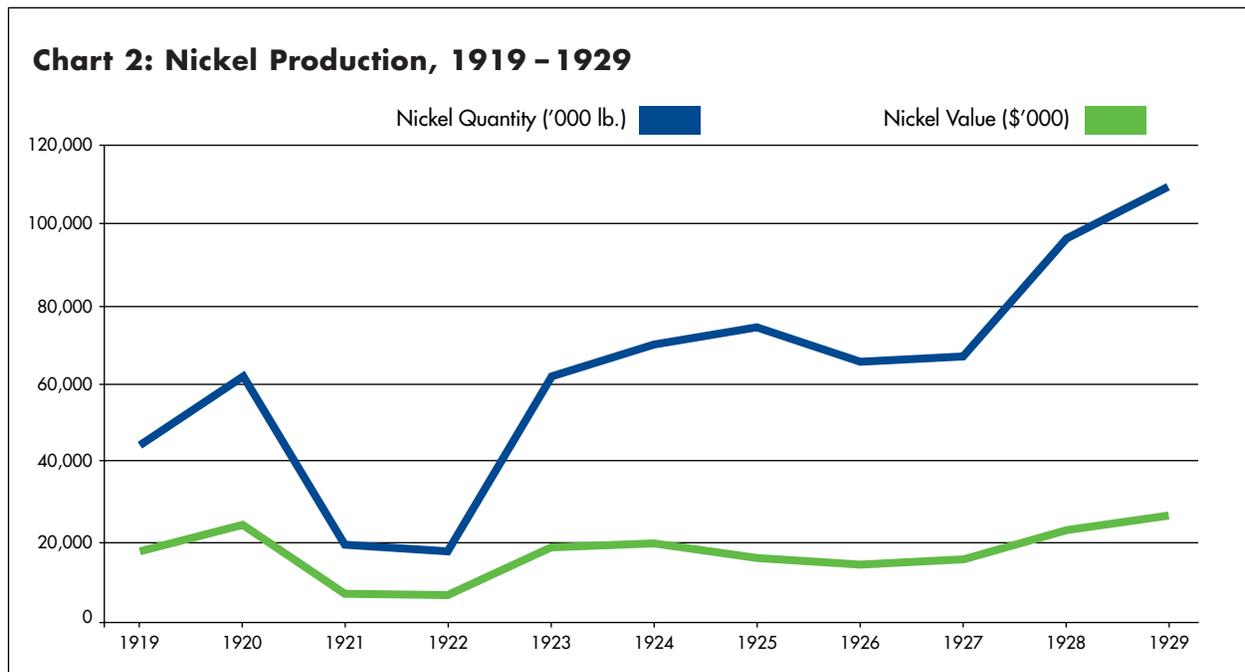
In what was to become a tumultuous decade, the International Nickel Co. began using the trademark name Inco in 1919.

World War I ended in November 1918. The postwar period saw a drop in demand, and nickel production plunged 50% in 1919. (See Chart 2, below.) Production rebounded in 1920 and then plunged 70% over the next two years. In some ways nickel production was reflective of the Post War Depression but the decline was more severe.

¹⁵ p. 259, O.W. Main in *Canadian Business History*.

¹⁶ Much of this is drawn from pp. 83-5 of Peter Oliver's *Ferguson* supplemented by pp 257-9 of W.O. Main's article on "International Nickel" in *Canadian Business History* edited by David S. Macmillan. A reading of Thompson's *For the Years to Come* gives the impression that the Port Colborne decision was part of normal business.

¹⁷ Only Inco is depicted as a corporate entity. The others are depicted in generic terms by resource sector.



The depressed demand following the end of World War I led to a research and development program to promote new consumer uses for nickel. This search for new markets was led by the new Inco President, the legendary Robert C. Stanley¹⁸ — the first President to come from a nickel background rather than a steel one. Stanley took over the reins in 1922 following the death of then-President W.A. Bostwick. Stanley was to serve as Inco’s CEO for 28 years. According to Inco lore, Stanley saved the company. He took over when the economy had hit bottom during the postwar slump. Cash was low and the Sudbury mines were closed, but Stanley managed to turn things around.

A mining engineer, a metallurgist, and a supersalesman, Stanley is listed as one of the Harvard Business School’s Great American Leaders of the 20th Century and is described as follows on the School’s web site: “A talented engineer, Stanley spearheaded numerous technological innovations in the production and refining of metals at International Nickel (Inco) and continued to grow the company through expansion, taking advantage of low asset prices during the Great Depression. Able to maintain its monopoly position by officially becoming a Canadian company, under Stanley’s leadership, Inco was able to become the world’s largest nickel company, producing 90% of the world’s nickel in 1951.”

By the mid 1920s, the automobile sector absorbed 36% of all nickel production. Thompson, in his semi-autobiographical work *For the Years to Come*, contends that the “acceptance of nickel by the automobile industry ... had a far greater impact... than any armament race ...”

In Germany, Krupp developed stainless steel, a new and exciting use of nickel. This contributed to a dramatic rebound in the market, and nickel production soared more than six fold between 1922 and 1929. New uses were found for nickel, including Edison storage batteries and structural nickel steels. Inco moved into industrial advertising. Interestingly enough, the dollar value only increased four fold because price levels were held low, partly to drive out competition.

It was Thompson’s contention that the late 1920s saw the company evolve from ‘a mining company to a company where production and the creation of market were of equal importance.’¹⁹

¹⁸ The Chairman of the Board was Charles Hayden, after whom the New York Planetarium is named. In terms of corporate governance, Hayden, an investment banker, was serving on 58 Boards at the time of his death.

¹⁹ P. 190, Thompson, op. cit.

Inco and 'The Competition'

The 1920s were marked by Inco's shift from a company with a 'captive' market to one that held a 'free' monopoly position. It previously sold to armament manufacturers and then to government, and during the war, 75% of all sales were to government. Inco made this transition in two ways. Firstly, in the early part of the decade, the company drove out the upstart British American company by cutting prices, which put the latter out of business. Secondly, as the decade drew to a close, Inco effected a merger with the British-based Mond in 1928, effectively creating a monopoly.

After the First World War, the playing field for nickel producers was crowded. There were three major, well-established players and one upstart. Le Nickel, the oldest company mined its nickel in New Caledonia, which after the war was again accessible and held France as a captive market. Mond, the British player, held the rest of the European market and had made forays into the United States. International Nickel was by far the biggest player with its primary market in the U.S., but it also made forays into Europe. And then there was the upstart British American company.

The British American Company²⁰ aggressively sought nickel markets. Inco responded by reducing prices. The British government, which had been providing financial support to British American, withdrew that support. Norwegian interests took over from the British. The new venture had 12 directors, 6 from each country. One of the Canadian directors was E.R. Wood, who was the founder of the modern-day RBC Dominion Securities. Other Canadian directors were: former Prime Minister Sir Robert Borden; E.N. Rhodes, former Speaker of the House of Commons, who would also become a future cabinet minister and Senator as well as serving as President of the Company; and the elderly Ottawa lumber king, J.F. Booth.

Once British American failed, Inco took over the assets.

From the very beginning in the early part of the century, Inco and British based Mond had a good working relationship.²¹ In 1928 they merged, through an exchange of stock, which gave the new company virtual control of the Sudbury nickel deposits and worldwide dominance of nickel markets.

As part of the merger agreement the board was enlarged to 25 members. The composition of the board saw an increase in the number of British and Canadian directors from two to nine — with six British and three Canadian directors. The Canadians were a cross section of representatives of Canadian business and mining establishments. They were: financier J.W. McConnell,²² mining magnate J. B. Bickell, and merchant James Richardson.²³

²⁰ Unfortunately for British American, its leader, Dr. F.H. Pearson was a victim of war, one of the many hundreds who died with the sinking of the *Lusitania*.

²¹ The Mond Process had been discovered in England in 1889 by Dr. Ludwig Mond and in 1900 the Mond Nickel Company had been formed to work Canadian ores.

²² See page 2 for details on McConnell and Bickell.

²³ See page 2, footnote 2, for background on Richardson.

Re-incorporation in Canada

In 1928, Inco was re-incorporated in Canada. There were claims that the main motivation behind the re-incorporation was to evade American anti-trust laws. In the 1920s, the American trust-busting movement had gathered momentum and was turning to the Morgan trusts. Inco's lawyers, Sullivan & Cromwell, are said to have advised on relocation to Canada in order to escape antitrust regulation. Once Inco became a Canadian corporation, it was no longer subject to U.S. jurisdiction. In Canada the U.S. anti-trust laws and the reach of American authorities were not an issue.

At that time Inco established dual headquarters in Toronto and New York City, although New York remained the home of headquarters for top management, marketing and finance.

Another important development occurred at the Company in 1928. For the first time, Inco was included in the newly-expanded Dow Jones Industrial Average, consisting of 30 companies, just 13 years after²⁴ the company first listed on the New York Stock Exchange.²⁵

On October 1, 1928, the Dow Jones Industrial Average was expanded again to include 30 stocks, and Inco was one of those stocks. Inco, along with such solid companies as Bethlehem Steel, Chrysler and Westinghouse, joined such legendary American corporations as General Motors, Sears Roebuck and Inco's original parent, US Steel, as part of the select group.

In 1929, Canada stood first in the world, producing 90% of the world's nickel and 70% of the world's asbestos. Inco occupied a huge place on the Canadian corporate landscape. Not surprisingly Inco was the largest Canadian-based mining company, with assets of \$182 million (more than three times the assets of the next largest, Cominco, which was owned by the CPR.) Inco was also the 11th largest non-financial company in Canada. Although Canadian based, 47% of its equity was U.S. based with another 31% held in the U.K.²⁶

However, although it was not obvious to some of the most astute business observers, trouble was brewing. For example, on Black Thursday, October 24, 1929, the day that Wall Street crashed, James Richardson of Winnipeg, one of the three Canadian directors, wrote a reply to Winston Churchill, whom he had met in the summer. Richardson recommended that Churchill buy Inco stock. He wrote "We have ...just gone through a severe panic in the New York stock market and there are all kinds of attractive investments.... I regard International Nickel ...as one of the most attractive."²⁷ 'Black Thursday' was quickly followed by Black Tuesday. The next three years saw major stocks decline by 87% with Inco in the vanguard declining by 94%.

The Fall and Rise of Inco

Between 1929 and 1932, International Nickel's stock declined by 94.3% (from 72 1/2 to 4 1/8), compared to an average decline of 85.9% among the top 50 Canadian stocks. As the distinguished

²⁴ September 23, 1915.

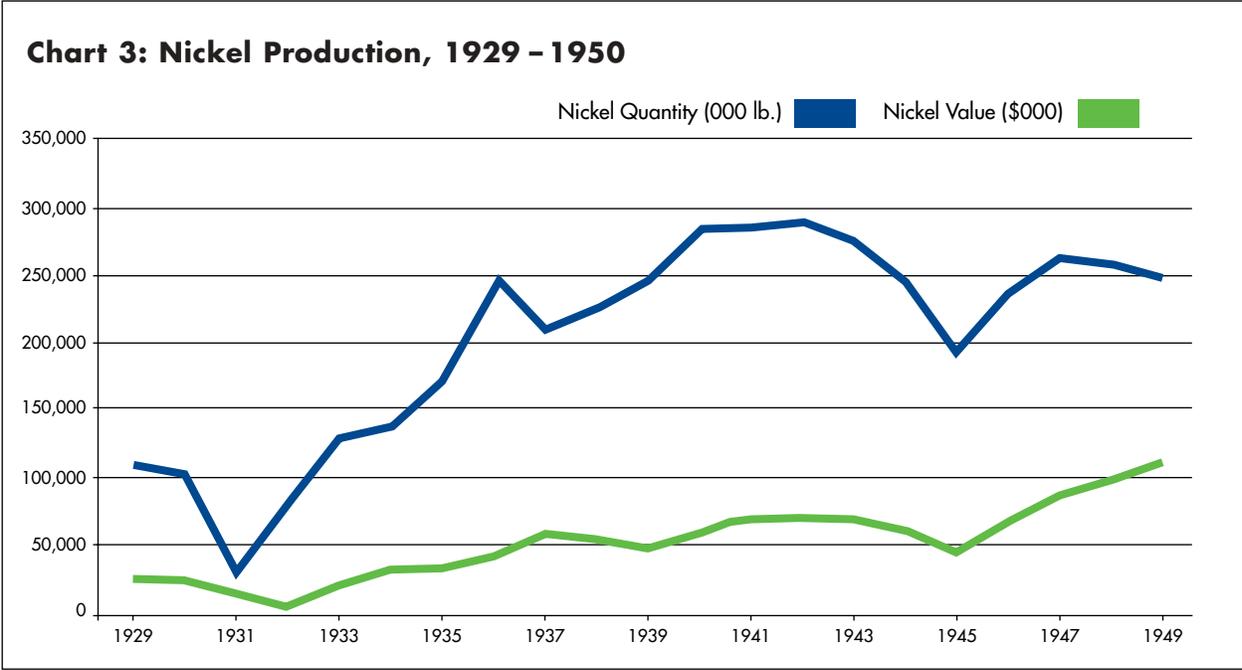
²⁵ The Dow Jones Industrial Average was first established in 1884 and consisted primarily of railway stocks. Twelve years later, in 1896 the Average was converted to Industrials only. Twenty years later in 1916, the year after International had been listed, the Average changed again to a listing of only common stocks and expanded to 20 companies.

²⁶ Taylor and Baskerville, p. 301.

²⁷ October 24, 1929 letter from James A. Richardson to the Right Honourable Winston Churchill, Richardson Archives, Winnipeg.

historian Michael Bliss notes, “Inco suffered harshly in the early years [of the Great Depression] but had a quick recovery, as world rearmament increased the demand for nickel alloy.”²⁸

As the Chart below shows, demand for the company’s product soared, and despite the inevitable abrupt decline after World War II, a sharp rebound in production occurred soon after as the world entered the Cold War era. However, it was not until 1947 that price increases started to match production increases.



As the Chart clearly illustrates, there was a sharp increase in demand for nickel in 1933, following the sharp decrease caused by the Great Depression.²⁹ By 1934 nickel production in Canada was already 40% greater than it had been during the last year of World War 1, and demand was increasing exponentially. Concern arose that European countries were stockpiling nickel for war purposes.

In his examination of the history of Mining, Martin Lynch writes, “The rest of the world had it within their power to prevent, or certainly to retard, the German buildup. Yet ships laden with Canadian nickel...continued to dock at Germany’s Baltic ports.”³⁰

In the mid-1930s, an Inco exploration team discovered a rich ore body in the Petsamo district of northern Finland which Inco developed, financed and supervised. By the time the war broke out in 1939, Inco had installed modern mining and smelting facilities. During the war these facilities fell under German and later Russian control.³¹

²⁸ P. 421, *Northern Enterprise* by Michael Bliss, W.
²⁹ Inco’s problems were aggravated by the Tariff wars between the United States and Canada of the early 1930s.
³⁰ p. 286, *Mining in World History* by Martin Lynch.
³¹ This Inco developed property is now owned by the big Russian nickel company Norilsk, formerly a state monopoly called Glavnikelkobalt. It was ‘sold’ to the Russian government for US\$20 million in 1944. Norilsk is now the major competitor to Inco and has significantly reduced Inco’s world market share.

Inco's Market Dominance

As has been noted, the 1928 merger of Inco and British based Mond gave the new company virtual control of the Sudbury nickel deposits and worldwide dominance of nickel markets. However, as O.W. Main notes, 'Inco's dominance was short-lived. In 1930, Falconbridge Nickel Mines began production of nickel matte to ship to the Kristianssands refinery in Norway. The company... drew heavily on the staff brought together by British American Nickel and the financial support of New York capitalists. ...Inco made no moves to engage [Falconbridge] in a price war or buy it out. ...In retrospect, the rise of Falconbridge to the position of a major producer...seems to suggest that Inco's tolerance may not have been in its own long-term interest.'³²

International's weak position in Europe compounded the problem. The Great Depression hit North America far harder than it did Europe.³³ As a consequence, International's sales dropped by 75% at a time when European consumption was showing a modest increase. International's world market share declined from 92% in 1929 to 60% just three years later,³⁴ as a result of the decrease in North American demand.

The war years were a mixture of good and bad news for International. Mines developed in Finland by International were taken over by the Russians, never to be returned. When Norway was overrun by the Germans, International started refining Falconbridge's matte. International and Mond, its subsidiary, "refined the total allied production of nickel...with the exception of ...nickel mined in Cuba."³⁵

Although the war increased demand, "the war years of the 1940s and the aftermath did leave Inco in a weakened position in the industry...War...and the uneasy peace...made governments clearly aware of the strategic nature of nickel. The support for the discovery of new deposits and the encouragement of new producers weakened the controlling position of Inco. While Inco continued to dominate the industry, its market share had been slowly slipping, and its control of the markets... was being quietly eroded."³⁶

However, it must be stressed that Inco made an enormous contribution to the Allied cause during World War II. The company supplied 95% of all Allied demands for nickel, about 1.5 billion pounds of all forms of nickel — a vital ingredient (not to mention huge quantities of copper and platinum) during wartime. "To win, the Allied armies needed machines — guns, tanks, battleships, and a host of other weaponry that could only be made from hardened nickel-steels and other nickel-alloys."³⁷

³² pp. 260, 261 "International Nickel: The First Fifty Years" by O.W. Main in *Canadian Business History* edited by David S. Macmillan – Main suggests three reasons for Inco's behaviour: (1) a price war would have meant large losses at a bad time; (2) they thought Falconbridge would not survive; and (3) concern about being called 'foreign monopolists'.

³³ GDP/capita declined by over 30% in North America whereas in Europe while the decline was 17% in Germany it was 10% in France and less than 5% in the UK.

³⁴ P. 111, *The Canadian Nickel Industry* by O.W. Main.

³⁵ p. 121, *Ibid.*

³⁶ p. 261, *Canadian Business History*, op. cit.

³⁷ "Mining for Victory" by Stan Sudol, *National Post*, August 25, 2005.

Business-Government Relations

During the 1930s, Inco made real efforts to portray itself as a British, Canadian company not only through its purchasing policies (e.g. buying coal from Cape Breton) but also through institutional advertising in order to offset its negative image that had endured from the First World War. The company also made considerable progress during the 1930s in the mining and refining of nickel and copper in Canada through the introduction of improved plants at Copper Cliff, a small town west of Sudbury, and in east Montreal.

Since World War I, government relations had been quiet, since Inco provided employment for many Canadian workers. However with the shift in markets in the 1930s from the peacetime uses of the 1920s to armaments in the 1930s there was an outcry in both the press and in the House of Commons that the government should take control of supply.

The government rejected these pleas, explaining that the increased demand was caused by new uses for nickel. Furthermore, the government contended that if Canada placed a ban on exports suppliers in other countries would fill the void and contribute to the severe unemployment problems facing Canada.³⁸

In part to deal with the growing importance of government relations, Inco expanded its 'scanty organization' and appointed geographical Vice Presidents for the United Kingdom, Canada and the United States.

After the Second World War broke out, the allocation of nickel came under government control.

In 1943, the newly elected Conservative Government of Ontario appointed a Provincial Royal Commission on Mining. The Commission reported the following year. It recommended that the amount of taxes paid by Inco to the Ontario government under the Mining Tax should be allowed as a deduction under the Federal Income War Tax. This provision would lead the federal government to promulgate regulations, which had no policy rationale and would complicate matters for mining companies.

In addition to dealing with the Canadian and Ontario governments, Inco also had to contend with the American government, including both the Executive and Legislative branches.

In 1946, the U.S. Department of Justice filed suit against Inco's American subsidiary charging monopolistic practices in violation of the Sherman Act. The Justice Department attempted to have Inco's rolling mills separated from the parent company. The suit was settled in 1948 with a consent decree allowing the company to maintain its own rolling mills, as long as it supplied other mills at competitive prices.

After the war, there was a modest price reduction to 30.5 cents, and the price was gradually increased to 40 cents a pound in 1948. In mid 1948 prices started to increase so that between the war's end and mid-1950, the price rose by 60%. That was sufficient to draw the attention of a U.S. Senate Committee chaired by former Congressman, new Senator, and future President Lyndon Baines Johnson.³⁹

³⁸ p. 118, *Ibid.*

³⁹ p. 93, "The Squeeze on Nickel" Nov. 1950, *Fortune*.

Conclusion

As the 1940s drew to a close, Inco's net earnings declined. Between 1948 and 1949, the earnings fell below those of 1947, about on a par with the early war years (Inco was not a profiteer during World War II) and well below the levels achieved in 1937. *Fortune* magazine was particularly critical of the company's 1949 annual report. The magazine stated that, based on its analysis, "foreseeing the trend of world affairs is not part of Inco's business."⁴⁰

The point *Fortune* was making was that there was a distressingly tight supply of nickel and a big part of the problem was that Inco was a monopoly. And, while it had its executive offices in New York it was incorporated as a Canadian company and consequently was beyond the reach of the Sherman Antitrust Act. In *Fortune's* eyes, Inco was an unregulated monopoly that could do just about anything it pleased because it was a large U.S. dollar accumulator for the Canadian government.

More specifically, *Fortune* expressed concern with the huge nickel demands required as the result of the outbreak of the Korean War in 1950. It was also concerned that although the Nazis could not reach the Sudbury basin in the 1940s, the Communists could in the 1950s. It was this kind of thinking that led the U.S. government to start stockpiling in earnest in the 1960s. Such stockpiling not only lulled Inco into a false sense of security, but it also contributed to the destruction of the company's monopoly by subsidizing Inco's competitors.

⁴⁰ p. 196, *Ibid.* The magazine was particularly critical of future leadership – Dr. John Thompson – when it wrote "Inco management could be Joe Louis – but there is no Eward Charles on the scene." Charles had become the world heavyweight champion in 1949.