THURSDAY, APRIL 29, 1943

THE DAILY NEWS

A COMPANY REPORTS TO ITS EMPLOYEES

The Story of the Founding and Financing of "One of Canada's Great Institutions"

The following report by Mr. S. G. Blaylock, president and managing director of the Consolidated Mining & Smelting Company of Canada Ltd., was prepared especially for Consolidated employees, but because of its wide interest, is made available to the general public. It outlines the history of this great institution and emphasizes the part the company and its employees are playing in the fourth year of Canada's war effort.

N RECENT MONTHS THERE HAS BEEN A DECIDED INCREASE in the propaganda against big companies, their profits and their war effort. They have been accused of profiteering and even of pilfering the public purse. Most of these stories spring from those who believe they can advance their own status either politically or financially by attacking the governments in power and the larger industries. Your own company has been among the targets of these attacks. The tempo of this propaganda has advanced to the stage which would make one think that no honest companies or governments were left. This propaganda, together with the quite evident lack of knowledge many of our employees have of the company, would indicate that it is desirable at this time for me to make a report this year to you. This report will amplify, for your information, our directors' report to the shareholders. I shall start with a brief review of the history of the company, commencing with its formation in 1906. At that time the struggling Canadian Smelting Works at Trail, owned by the Canadian Pacific Railway and consisting of a copper smelter, a lead smelter, lead refinery and gold and silver refineries, was dependent entirely on customs ore shipments. The mines were inclined to work when prices were high and shut down when they were low. Consequently, smelter operations and employment were very erratic. In 1906 Mr. W. H. Aldridge, then General Manager, brought the main producing mines into a merger with the Smelting Works. The new company was to be known as The Consolidated Mining and Smelting Company of Canada Limited. A distribution was made of 48,988 shares of the new Consolidated stock among the following companies: the War Eagle, the Centre Star, the St. Eugene, the Richmond Eureka, the Rossland Power Company and the Canadian Smelting Works in payment for their properties. Many millions of dollars had been spent on these properties and the 48,988 shares of a par value of \$100 per share gave the new Consolidated company a most conservative financial position.

been developed since the outbreak of the present war, promise not only to be a Godsend to our own nation and our Allies but a profitable ven-ture for our company. The Red Rose tungsten mine, now entering production, will also help the war effort and may become profitable later on.

GOVERNMENT WAR PLANTS.

In your case you are receiving more for your effort than in prewar days, as the following tables compiled by our Industrial Relations ANNUAL AVERAGE EARNINGS PER DAY PAY EMPLOYEE 1941 1942 1940 1938 1939 \$2031.54 \$1322.39 \$1392.35 \$1615.08 \$1884.01 Trail 1750 01 0170 15 9991 60 Mino

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NOTHING PAID TO SHAREHOLDERS FOR YEARS.

Two years after the consolidation, dividends were discontinued and nothing was paid to the shareholders for five years. All profits made were ploughed back into the business. In 1909 the Sullivan Mene in East Kootenay (a property with a highly complex ore which had been mined for years, and part of that time by one of the largest and wealthiest mining companies in the world, but could not be made to pay by its owners), was optioned by the Consolidated at a low price. For 13 years a very costly experimental program was carried out by the Consolidated until the main metallurgical problem presented by the Sullivan ores was solved.

During World War I (1914-1918) the Electrolytic Zinc Process was developed by your company jointly with the Anaconda Copper Mining Company. Subsequently with the solution of the concentration problem of the Sullivan ores, the Company's financial horizon was brighter When your company started to make electrolytic zinc in the last war the price for high grade zinc in the U.S.A. was 45c per pound. Our company contracted with the British Government to supply zinc at 14c a pound. The British Government advanced \$600,000 towards the cost of the lant and the money thus advanced was repaid by deductions from the returns from this contract. At this time (the U.S.A. not yet being in the war) Anaconda entered into a contract to supply the Brit b Government with zinc at 27c per pound.

With the advent of the present war your Company offered its services to the Government to build and operate any plants they (the Government) might wish and for which by training and experience, the staffs of your Company would be valuable to the war effort. Your Company also offered to build and operate such plants without profit. The interpretation of such contracts as have been entered into has been that the Consolidated Company was not "to make or lose a nickel" through this voluntary war contribution.

Plants of a value of over \$16,000,000 have been built and are being operated for the Canadian and United Kingdom Governments on this basis.

When the war is over these plants will remain the property of the Government and, if our Company wants or requires them to expand its operations, we will have to meet the price offered by the highest bidders.

I have dealt with our relations with our Canadian and British Governments in these wartime efforts in order that you may not be misled either by ignorant or malicious propaganda which generally sets out that our company is either making big money now under these arrangements, or will do so later on by getting the plants as gifts at the end of the war.

As you all know, your Company has been short of power since the Government plants have been in operation at Trail. There was a surplus of 50,000 h.p. of electrical energy before they were built. These plants added about 57,000 h.p. to the load and took up all this reserve. In order that the necessary power might be made available at the earliest possible moment, I proposed to the Government that I would recommend to our directors that we should build a power plant at the Brilliant site on the Kootenay River. As this plant was made necessary to supply power to the new Government plants and as the cost of construction under war conditions was much higher than normal, and as the value of the plant during the post-war period was uncertain, we asked the Government for assistance by way of special depreciation. This assistance was granted under the War Exchange Conservation Act. 1940.

The principle of normal depreciation is recognized by all taxation authorities and the owners of capital assets in the form of plant, machinery and equipment, have always been permitted to deduct, from their profits before they are taxed, annual amounts, depending upon the nature of the assets, calculated to retire the capital investment over its useful life. The special depreciation granted by the Government in the case of the Brilliant plant simply means that depreciation will be written off sooner than would otherwise be the case, and while the depreciation is being written off the Company will obtain certain tax credits. However, after the period of special depreciation, the taxes paid will be correspondingly higher and the Government will benefit accordingly

In other words, the Government has simply assisted in financing the construction of the plant by foregoing temporarily taxes which they will recover later in whole or in part over subsequent years. As the power is sorely needed and as quickly as possible for war purposes I am sure that any reasonable person will agree that the Government department concerned has made a good bargain and is entitled to praise rather than to criticism.

Mine	· · · · · · · · · · · · · · · · · · ·	1750.21	1713.40	2068.27	2173.15	2331.08
Mill		1723.22	1627.48	1882.76	2040.88	2273.09
ANN	UAL AVER	AGE DAYS	WORKED	PER DAY	PAY EMP	LOYEE
		1938	1939	1940	1941	1942
Trail		262.3	263.6	288.0	312.6	313.5
Mine		301.	288.	328.	321.	320.3
Mill		358.	321.	340.	345.8	351.3
	AVERAG	E DAILY V	VAGE PER	DAY PAY	EMPLOYEI	E
		1938	1939	1940	1941	1942
Irail		\$ 5.04	\$ 5.28	\$ 5.65	\$ 6:03	\$ 6.48
Mine		5.81	5.95	6.31	6.77	7.28
Mill		4.81	5.07	5.53	5.90	6.47
INCH	REASE IN A	VERAGE I	DAILY WAG	E PER DA	Y PAY EM	PLOYEE
			1938 194			
		Trail	Mine	Mill		
		\$1.44	\$1.47	\$1.66	and the second s	

Including working capital and the new Brilliant power project, your company will have about \$120,000,000 actual money invested in its operations. This large sum has either been furnished by the shareholders in cash or taken out of the earnings of the Company. It amounts to an investment of over \$15,000 for every employee.

While we have had quite a good year after providing for necessary reserves, taxes and so on, only \$8,189,552.50 was distributed to shareholders who numbered approximately 12,000. It must also be borne in mind that by estimation more than half of this \$8,189,552.50 will be taken as income taxes from the individual shareholders out of these dividends after they are distributed. It is interesting to note that they do not have a double tax of this kind in the United Kingdom.

WILL PROVIDE FOR EMPLOYEES AFTER WAR.

I would like to emphasize that the money which we have placed and may yet be able to place in reserve will form working capital with which to carry on in the post-war period when we anticipate we shall be confronted with many perplexing problems. In the post-war era sales may be slack, overhaul and improvements to plant will be necessary, and it may be that we shall require capital with which to purchase at least some of the wartime plants built for the Government and now owned by them. Expansion of this latter nature is, at the moment, in the lap of the gods, but we must be in a position to meet it if required.

This review of our operations has been prepared especially for our employees, and I ask you to peruse it carefully. It deals more specifically with what has been and is being done for you, our active working force. and, in anticipation, for those of our fellows who are offering their lives for us.

Our Company is determined that in the post-war period we shall be in a position not only to accept our responsibility towards those of our employees now members of the armed services, but it is determined that we shall be able to carry our fair share of the burden of readjustment. Every one of us wants to look forward to and strive for eventual better things in the coming world of Victory and Peace. With a great many others, I do not look for the millenium with the unconditional surrender of our enemies, which is the approved objective of our leaders in the present life-and-death struggle. There will be difficulties in that period of readjustment, and it is our duty to anticipate them. The spirit of loyalty and co-operation which has been demonstrated so consistently throughout the year by all employees is much appreciated by the Directors.

A the commencement of the present war we contracted to sell to the Fritish Government all of our zinc production in excess of Canadian requirements at approximately 3.34c per pound, f.o.b. Tadanac

Outside of developing the Electrolytic Zinc Process our Company got very little out of its first World War zinc contract. The costs were nearly as great as the returns from sales, and had it not been for the develorment of the successful flotation treatment for Sullivan ore worked out at the old concentrator at Trail, it is unlikely that our Trail plant would be operating today.

NO MANIPULATION OF COMPANY'S STOCK.

Many millions of dollars were required to finance all this development work and construction. This money was obtained partly from earnings, and partly from the sale of bonds which were later redeemed by the issue of shares at a premium. When it was considered advisable to enter the chemical field the money required for plants was secured by selling treasury stock at eight times the par value to the company's shareholders, i.e., a share of stock of \$25 par value was sold for \$200-approximately the then market price. The reason the original \$100 shares had been divided one into four (at a par value of \$25) was in order to simplify the exchange of shares with the owners of the West Kootenay Power & Light Company Limited when that company was taken over. I am giving you this picture of our financing so that it can be readily seen that there has been no manipulation of the company's stock.

More than \$100,000,000 of earnings have been ploughed back into Consolidated's operations, in plant additions and extentions and in looking for new mines. For many years our luck in finding new mines was very bad. However, the Sullivan Mine and adjacent property continued to develop beyond all expectations.

The chemical plants which were more or less forced on the Consolidated Company to control the smoke nuisance which had involved international litigation, have turned the corner and now are a profitable venture. Their position in the post-war world is, of course, obscure at the moment.

Several gold mines have been brought into successful and profitable production in the last few years and the mercury mines, which have

BRITISH GOVERNMENT SAVES ON CONTRACT.

Our main tonnage of lead and zinc has been contracted to the British Government at lower prices than those of any five-year average in history. All of our zinc, in excess of Canada's needs, is contracted to the United Kingdom at 3.34c per pound f.o.b. Tadanac. I would ask you to compare this with prices in World War I (1914-1918), when a high of 45c per pound was demanded or with today's price for the same high grade of zinc in the U.S.A. of 9.25c per pound. We have contracted about 65% of our lead per year to the British Government at 2.776 per pound f.o.b. Tadanac and Canada gets its metal for war purposes at approximately the same price. Our contract provides for increased prices should costs increase over 5% in a calendar year. The U.S.A. price for lead today is 6.50c. The price during World War I (1914-1918) reached 12c.

It is only necessary to compare these prices to see that there is no grasping policy on our part nor grounds for any suggestion of profiteering. The British Government saves approximately \$22,000,000 per year by purchasing from us and thus not being compelled to rely on the U.S.A market. Furthermore, as the United States supply has been short, they could not supply the heavy British demand at any price. As a result of increased costs the present prices on our contract with the United Kingdom are: Zinc, 3.6c per pound; lead, 3.04c per pound.

ORE RESERVES SACRIFICED FOR WAR EFFORT.

Our Company is making good profits. We have never complained on that score, but the profits are being gained only by depleting our ore reserves at what, under normal circumstances, would be far too high a rate. However, we are more than willing to make this sacrifice as a contribution to the war effort. It must be remembered that while everything the Company uses costs us more than in normal times, its two most important products, from the productian standpoint, are selling for less money than would normally be the case. Consequently the profit per pound is very low. Greater production and unlimited wartime market make this possible. But do not forget that once ore is mined and the metal sold it is gone forever. You cannot plant ore back in a mine as you would reforest a tract of timber or restock a body of water with fish! partment will show:

It is my sad duty to record the death of our Chairman, Sir Edward W. Beatty, G.B.E., who throughout the years had an abiding and friendly interest in the affairs both of the Company and all of its employees.

In conclusion, I might express my complete agreement with and re-echo the sentiments of the Right Honourable Winston Churchill, Prime Minister of the United Kingdom, in his address to the British Commonwealth of Nations and to the world on Sunday, March 21st, 1943, when, among other great pronouncements, he said:

"I have tried to learn from events and also from my own mistakes. And I tell you my solemn belief, which is that if we act with commadeship and loyalty to our country and to one another, and if we can make state enterprise and free enterprise both serve national interests, and pull the national wagon side by side, then there is no need for us to run into that horrible, devastating slump or into that squalid epoch of bickering and confusion which mocked and squandered the hard-won victory which we gained a quarter of a century ago.

"I end where I began. Let us get back to our jobs."

M/ay/our

PRESIDENT AND MANAGING DIRECTOR.

FIGWR H

April 14, 1943.

"What We Own, What We Owe and What We Are Worth"

A Balance Sheet always seems to be a com-On the other you would list what you owe cept financial experts. But very simply, it is a statement of what we own, what we owe and what we are worth. It has nothing to do with our Sales or Income or how much money was received each year and divided among employees in wages, among stockholders in dividends, etc. It is exactly the same as if you took two sheets of paper and on one listed the cash you have, the value of your home, car and furniture, and the dollar "Jack Brown" owes you. At December 31st, 1942 At December 31st, 1942 **CONSOLIDATED OWNED** CONSOLIDATED OWED Cash on Hand and Bank Balances \$ 5,400,000 For Wages, Supplies, Electric Invested in Dominion Bonds and Power, etc. Treasury Bills and in Municipal 11,100,000 Bonds For Taxes not yet paid Amounts owed to us by Customers, For Dividends declared but still to 8,000,000 Employees and others be paid Value of Metals and other products Amount set aside for losses result-7,600,000 not yet sold Value of supplies in warehouses ing from fire and to provide employment after the war 6,400,000 and elsewhere Capital - To Shareholders for Invested in Subsidiary Companies, less amounts deducted for minmoney invested by them and used by the Company to search erals extracted in the cases of for and develop mines, to build 10,900,000 mining companies plants and to buy operating 900,000 Invested in other companies Mines, Mineral Claims and Mining supplies, etc. Investments, at cost to us less Surplus-Profits accumulated since amounts deducted for minerals 1906 (out of which the share-1,100,000 holders regard \$19,000,000 as teextracted Land. Buildings and Equipment, at ing permanently invested in the cost to us less amounts deducted Company's Mines and Plants, 15,000,000 leaving \$7,200,000 available for for wear and tear Payments for freight, etc., which are chargeable against future new undertakings or for dividends) 300,000 operations \$66.700.000

plicated table which means little to any ex- the grocer and the butcher, the amount you owe for the mortgage on your home and what you owe on the car. Then subtract what you owe from what you own. The result is what you are worth, and what in the Company's Balance Sheet, on this basis is called Capital or Surplus. This may be entirely represented by Property or possibly by Property and Cash. This figure is placed on your second sheet. Thus, the first sheet "what you own," and the second sheet "what you owe and what you are worth" balance exactly. \$ 5,100,000 3,300,000 1,800,000 6,400,000 23,900,000 26,200,000 -----\$66,700,000

Employee Welfare

At Trail and Kimberley operations a total of 29,178 shifts were granted as holidays with pay. This cost the Company over \$150,000. The pay per holiday shift averaged over \$5.00.

Some Interesting Figures

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BIA

We paid in salaries and wages to C. M. and S. jobholders for Construction Development

and Operating	\$15,844,000
We provided for Employees'	
Pensions over	\$733,000
We pay in taxes-Dominion,	
Provincial and Municipal,	
over	\$7,000,000
We spent for development of	
mines and for prospecting	\$914,000
We set aside to cover reduc-	
tion of equipment value be-	
cause of wear and tear,	
nearly	\$4,900,000
We set aside to cover reduc-	
tion of value of mines due	
to extraction of minerals	\$1,300,000
We paid for electrical power	
to operate our plants at	
Trail and Kimberley	\$4,224,000
We paid in freight about	\$13,000,000
We paid for Coal and Coke	
used at Trail and Kimber-	
ley over	\$1,900,000
We paid to Shareholders in	
Dividends just under	\$8,190,000
We set aside for Post-War needs	
Consolidated Employees in His	-
Majesty's forces as at March	1703
1st, 1943	

During 1942, twenty-seven pensions were granted, the average retirement age was 62.4 years and the average years' service was 24.

At the year end, the Company had 137 apprenticeships in effect. Of these, 54 were on leave to the Armed Forces, 13 completed their training during the year and 47 commenced training.

Approximately \$330,000 was loaned in 1942 to employees for construction, maintenance and improvement to their dwellings. (Over \$4,500,000 has been advanced to date for employee housing loans).

An Industrial Hygiene Department has been set up at Trail and detailed records are being kept on accident and sickness absenteeism, and much prevention of industrial diseases as they affect our industrv.

Two scholarships were granted to sons of employees to permit them to pursue university studies in applied science.

Additional Company benefits include Christmas turkeys, free fertilizer distribution, fuel financing scheme and garden plots.

THE CONSOLIDATED MINING AND SMELTING COMPANY OF CANADA LIMITED

TRAIL, B.C.