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The British Columbia Packers Association

Vancouver, B.C. Feb.10,1903. 190

(C o p y)

Edward Cronyn, Esq.

C/o AEmilius Jarvis & Co.

Toronto, Ont.

My dear Cronyn:-

Your letter of the 2nd inst.arrived yesterday, and I immediately wired you not to have anything to do with McGovern's proposition, as it would be most injurious to the Association, and that the statements made by him were not in accordance with the facts In the present letter I will deal entirely with his proposal so that the contents can be shown to Mr.Nicholl, Col.Pellatt, or any others to whom the other matters, touched upon in your letter, would have no meaning.

I am not surprised that Mr.McGovern's proposal received more consideration than it deserves, because he is a very plausible talker, and to those unacquainted with conditions as they exist his explanations would undoubtedly carry weight. Had Mr.Jarvis been home he could have enlightened you on some of the points on which you ask me for information, as he was aware of Mr.McGovern's reputation, and the value of his statements. However, I will explain matters as fully as possible, and as I have known Mr.McGovern most intimately for a great many years I feel I can speak from experience.

Years ago the firm of Wm.T.Coleman and Company of San Francisco were the largest factors in the salmon business. Acting in the capacity of selling agents and financiers they practically controlled the then salmon markets of the world, dictating to both packers and

purchasers. Their methods were by no means honest; a charitable description might be "tricky", and nearly every packer doing business with them suffered for the connection. Those who did not, owed their escape to their methods being on a par with those Coleman employed. About 1886 Coleman & Co.failed, and as their paper was scattered all over the U.S. I have no doubt Mr.Walker can recollect the concern.

T.B.McGovern at the commencement of his business career entered the employ of Wm.T.Coleman & Co., and, learning their business methods, carried the same ideas into practice when starting in business for himself. Like Coleman too, every packer who had business relations with him has had cause to regret the connection. He at one time handled considerable of the Alaska Packers' Association's salmon (through Wm.Brown & Co., San Francisco), but though I am not fully apprised of the cause, I know that the A.P.Association look upon him as absolutely untrustworthy, and would not enter into any selling agreement with him under any circumstances. He also represented the Puget Sound Packing Co. of Fair haven, Wash., in fact, organized it. After one year the company became insolvent, and through some trick McGovern succeeded in unloading the entire indebtedness on to one of the Seattle National Banks. Their confidence in his statements cost them between $150,000.00 and $200,000.00

Some few years ago McGovern organized the Columbia River Packers' Association. The company was largely over-capitalized, and has never been a success. I do not think their stock is listed, so cannot give you any idea of the market value of the shares. In connection with the flotation of the Company was an agreement by which the sale of the product for a period of, I think, ten years, was to be in McGovern's hands.

About two years ago McGovern assisted in the formation of the Pacific Packing & Navigation Co. For his share in the organizing he was given a heavily salaried position, and his Company, (Delafield, McGovern & Co.) were given the sale of the product of the new Company for a period of ten years. In order to cover certain interests (principally, I believe, large wholesale grocery houses in New York), a new Company - The Pacific Selling Co., was formed.- They took over the business of Delafield, McGovern & Co., and also its sellingc ontracts. The P.S.Company's control in entirely in the hands of McGovern and his friends, and any profit likely to be made out of thes almon business they control will be made by the selling - not the parent companies. They have secured themselves in every way possible, so that even should the canning companies change hands their contracts will become binding upon their successors or assigns.

In the statements made you by McGovern, and also in his written prpposal, there are several matters which conflict strongly with actual facts. To understand these differences properly, it is necessary to look at the conditions prevailing in the salmon market to-day.

When the P.P.& N.Co.was formed it was very much advertized, and very much over-capitalized in preference as well as in common stock. They also had to issue 7% bonds, which, of course, rank ahead of the preference stock from a dividend standpoint. The free advertising brought salmon canning to the notice of the outside public, with the result that some ten or fifteen independent companies started in the business. The over-capitalization, together with their dislike of McGovern, made the P.P.& N.Co. a shining mark for the attack of the Alaska Packers' Association. The latter concern always has, and does to-day dictate the selling

prices in the U.S.Market, and all the Pacific Selling Co. can do is to follow their lead or not make any sales; in fact, as a general rule they have sold at a little under the A.P.A's figures, which is due either to necessity, in order to dispose of their product, or is the continuation of Mr.McGovern's policy to make a good showing as to his ability to dispose of goods even though it is at the expense of his clients. All of Mr.McGovern's ability to sell goods is accredited to the reputation he has always enjoyed of being a "cutter" of prices. Last season his cuts were from 5¢ to 15¢ per case below the A.P.A.figures, and even then he made comparatively few sales.

The canneries of the P.P.& N.Co. are as a rule very poorly situated. Those on Puget Sound depend entirely upon the Fraser for fish, and make or lose money, according to the run of fish the Fraser has. Their fishing methods, i.e., traps, are cheaper than ours when fish are plentiful, but far more expensive when fish are scarce, and if the trap question, as far as B.C.is concerned, is ever settled on an honest basis, the value of their Puget Sound plants will depreciate materially. Most of their Alaska plants are situated in South Eastern Alaska, where the poorer quality of salmon, such as "Humpback" and "Dog" salmon, predominates. The demand for these varieties is limited, and the market to-day is overstocked on them to the extent of fully one million cases, of which 25% is in the hands of the P.P.& N.Co., and on which they are credited with having obtained $2.50 per case advance from the banks. If conditions similar to 1902 were to prevail again in 1903 this pack would again be increased, and therefore, in order to cripple the P.P.& N.Co., and at the same time discourage the putting up of these cheap grades, the Alaska Packers' Association have, within the month, named prices of $1.50 per case on Dog, and $2.00 per case on Hump-

back salmon. These prices are both for spot stock and future pack, and deliveries are guaranteed. I am aware that the P.S.Co.pintend to make light of these figures, and say that the market will not go down to the A.P.A.'s figures, but their statements are dictated by the knowledge that the advances of the bank largely exceed the present market value, and unless that can be shown not to be the case they must find the money to settle with the banks.

The A.P.Association does not hesitate to admit their prices are below cost, but I think that beyond a doubt their policy will result in the P.P.& N.Co.going into insolvency inside of the next two years, and unless I am greatly mistaken the A.P.A.will be the ones who will buy their assets. You can therefore see that amalgation of any sort with McGovern or his Companies cannot be expected to prove permanent, and can only result in the B.C.P.A. becoming a party to the A.P.A. - P.P.& N.Co. fight.

Regarding McGovern's statement that their net profits for last year were approximately $400,000.00, I do not for a moment believe it. They lost heavily on Puget Sound, and this cut in the price of cheap fish will remove all chance of profit on their South Eastern Alaska pack. McGovern's selling commission, the interest on their bonds, and the very low prices they sold for, make it very probable that if the auditors were given a correct set of books to work upon their operations would show a loss of $400,000.0 0, instead of a profit of that sum.

Regarding his statement that he was responsible for the prices that ruled last season for raw fish, and that he had advanced them suddenly for the reason of keeping our cost up, I can only brand the statement as a deliberate falsehood. In the first place,

last season being a failure, and traps more expensive that gill nets, instead of their cost being less it was fully double what ours was (we operated some traps, so I speak from actual experience, besides my knowledge of what they were doing). In the second place our fish were bought from the fishermen, on a sliding scale ranging from 20¢ to 11¢ per fish, according to the number of cases packed; so, naturally, the actual price paid could not be ascertained until the season was over. In the third place, we named no prices for export - the only market his prices might affect ours - until the season was completely over, the Coast pack accurately ascertained, and practically all his good grade fish already disposed of at prices out of all proportion to the better figures we obtained by waiting. Any impression he may therefore have made in your mind as to his being a factor in setting prices for either raw material or finished product for the season of 1902 you can instantly dismiss as being unworthy of credence.

I will now take up his written proposal in detail.

1st. Objects of the Company. He proposes they act as sales agents and should also finance the canning companies. The sales agents' portion I will deal with when discussing commissions, but as to the financing, I understood the favor our scheme met with in the eyes of both Banks was the increased business they would derive from financing us for our requirements. Even were this not so I should still object to the credit we enjoy being used to provide capital with which to prolong the operations of two other concerns both on the verge of insolvency.

2nd. Prices. He claims his proposal would prevent competition in the purchase of raw material and the sale of the finished product. In both claims he is not stating facts. In the purchase of raw material

there is no competition, as the difference in methods and the fact that the countries have separate governments obviates this. In the sale of finished product, the B.C. pack controls the Canadian market absolutely, so we can fear no competition from the American packers, neither can we enter their home market where practically all their Sockeye fish finds ready sale. In England, our only important mutual territory, where their principal sales would be in Alaska fish, they cater to a trade we cannot supply, and similarly we have a demand with which they cannot interfere. But outside of this lack of competition on our respective packs is the fact that the present competition comes from the Alaska Packers' Association, and it will continue as strong as it is to-day as long as the P.P.& N.Co.are in existence as a separate company.

3rd. Income from holdings stock. His proposal would indicate that this income is assured. In this I can by no means follow him. I believe, and his figures strengthen my belief, that the Columbia River Packers' Association stock is all of one issue - ordinary shares. If so they do not need to be considered, as I understand the only dividend they ever paid was one of 4% after their first year's operations, and this was said to have come out of their working capital. As far as the market value of this stock is concerned, I only know of one sale, and if my recollection serves me the price realized was $13.00 per share (Par $100).

The P.P.& N.Co.I believe will commence defaulting on the dividends shortly - probably this year. Their stock bears 7% accumulative dividend, yet is only quoted about 25¢ on the $1.00 on the New York Exchange, which is a pretty good estimate of its value, and should give you a relative idea of how it should compare with our Company in any allotment of stock in a Holding company.

The Holding Co.'s "position as the financial agent of the constituent companies" might be strengthened by their holdings of our stock, but could get little backing on the strength of their other securities.

4th. Value of pack. Taken on the basis of what they have packed in the past I think it will be found that Mr.McGovern has over-estimated the average annual pack of the C.R.P.A., and likewise the value of same. His estimate of the P.P.& N.Co. I feel sure is also slightly at fault as regards average annual pack, and I know his estimate of its value is much too high, especially when one takes into consideration his immense holdings of unmarketable goods. Another singular coincidence is his under-estimation of the value of our pack. This, however, was probably an oversight.

5th. Commissions. I must take exception to Mr.McGovern's statement that his proposal of "5% on all sales and in addition thereto such actual brokerage as may be paid by them" would not mean an additional tax to the packer over the present cost of 2½%, and that this again would be offset by the elimination of competition. To begin with, as I mentioned above, it is all nonsense for his company to talk of their ability to eliminate competition, and in the second place such a scheme would cost us exactly 5% more to do the business than it does to-day. In Canada we pay small commissions, and his company would have to pay just as much and probably employ the same brokers. In England we have far superior selling connections than he could possibly offer, amongst others H.J.Gardiner & Co., and Balfour,Williamson & Co., and here again our cost of doing business is just 5% less than under his proposal. Looking at it from the standpoint of our shareholders, accepting any such proposition as he advances would be giving the Holding company an anual present of

$100,000 in unnecessary commissions, without receiving the slighest compensation in lieu thereof. This is equal to nearly 7% on the common stock issued, and would give the holders of that stock just cause for complaint.

On the other hand, McGovern would be giving no value and yet receiving from us a selling contract binding on us for a period of years which would nett. him a handsome return - between his salary as manager, and his interest as shareholder - without running any of the risk of loss such as the parent companies might suffer from a bad season or other similar causes. Thus he has everything to gain and nothing to lose, while we are vice versa.

McGovern is partially correct in his statement that 1904 will be poor. The Fraser, while not "worse" or even as bad as last season, will still be comparatively small, but what we are short there will probably be fully compensated for in northern B.C., where the run is expected to be above the average. The P.P.& N.Co.'s Puget Sound plants, however, should nett. the Company a loss, as they are entirely dependent upon the Fraser for their supply.

Thus, taking everything into consideration, the less we have to do with McGovern the better. If any connection is desired we can obtain far better results by making an arrangement with the Alaska Packers' Association. They are far more powerful and consequential than the P.P.& N.Co., their interests are closer to us than the others, and we are on excellent terms with them in every way. Any dealing with McGovern could not help but leak out, and would change them from friends to powerful enemies. Even were there profits to be derived from McGovern's scheme, it would be turned into heavy losses before the A.P.A. is through with him.

However, my personal opinion is that we should continue to

operate on independent lines at least until the showing we can make will entitle us to consideration on our own account. From the basis of assets and our ability to pay dividends on both preference and ordinary stock, I donsider we can show more actual value in our holdings than both the P.P.& N.Co. and C.R.P.A. put together, but you could not get this recognized in any amalgation proposition until we could show the actual results. Of course, the same rule would apply in any such proposal if made by the Alaska Packers' - excepting their standing - as naturally they would view our claims to proportionate recognition upon the volume of our business and the results of our management. One of the P.P.& N.Co.'s mistakes was in disposing to a subsidary company its selling business and thus cutting off their profits accordingly. The Columbia River Packers' Association did likewise, and with similar results. The Alaska Packers' Association on the other hand carry their own stock, and do their own selling - through one house it is true, but on no more commission than they are justly entitled to - and it is done on a profitable basis. We have followed their example, and so far have no reason to complain. I would advise we continue as at present, patterning our conduct and operation after those adopted by our successful and not our unsuccessful competitors.

Yours very truly,

H.D. (Sd) Henry Doyle.

Copy letter to Company re mineral claims