CABINET.

NEWFOUNDLAND.

Draft White Paper.

(Circulated by direction of the Chancellor of the Exchequer).

Treasury Chambers, S.W.1.,

14th November, 1933.

I. Memorandum by His Majesty's Government in the United Kingdom.

His Majesty's Government in the United Kingdom have given their most careful consideration to the Report of the Royal Commission on Newfoundland. While greatly regretting the situation which has arisen, they feel it impossible to dissent from the main conclusions and recommendations at which that Commission has unanimously arrived.

The needs of the Island, in the view of the Royal Commission, are both constitutional and financial; and the Commission recommends that, in order to avert the collapse with which the country is threatened, an immediate appeal should be made by the Newfoundland Government for the co-operation of His Majesty's Government in the United Kingdom in the execution of a joint plan of reconstruction embracing both the constitutional and financial spheres.

Under this plan the existing form of government would be replaced, until such time as the Island may become self-supporting again, by a form of government under the supervisory control of His Majesty's Government in the United Kingdom, while the latter would, for their part, assume general responsibility for the finances of the Island and would, in particular, make such arrangements as may be deemed just and practicable with a view to securing to Newfoundland a reduction in the present burden of the public debt.
His Majesty's Government in the United Kingdom would think it little less than a disaster if the oldest Colony in the British Empire were to default on its obligations. On the other hand it is clear that the present burden of the debt is more than the people of Newfoundland can for the time being discharge unaided despite the utmost effort. As by far the greater part of the debt is expressed in sterling or in dollars with an option to the holder to demand sterling at par, no change in the value of the dollar could help in reducing the debt burden.

In the circumstances, in the view of His Majesty's Government in the United Kingdom the situation can be met only if Newfoundland is placed in a position to offer holders a security of market value corresponding to the nominal value of the existing debt; in this way Newfoundland would in effect be paying 20/- in the £.

Subject therefore to the acceptance by the Newfoundland Government and Legislature of the main recommendations of the Commission His Majesty's Government in the United Kingdom have framed a plan for the reduction of the present burden of the debt. This plan is explained in more detail in the telegram sent to the Prime Minister of Newfoundland on the 19th November printed in the second part of this Paper and may briefly be described as follows:

His Majesty's Government in the United Kingdom would ask the Parliament at Westminster for authority to guarantee a new 3 per cent. sterling Newfoundland Stock with a life of ten to thirty years to be offered in exchange for the outstanding stock and bonds of the
Newfoundland Government other than those which are Trustee securities. Holders would receive this stock in place of their existing holdings; in other words, they would receive a security corresponding in market value to the face value of the debt due to them. The burden of the debt interest of Newfoundland would in this way be reduced by £ a year. Authority will also be sought to guarantee those Newfoundland Securities which are Trustee securities. Under these authorities any amount which may be required by the Newfoundland Government to enable it to discharge the service of the public debt after conversion would be made available from the United Kingdom Exchequer. It is proposed that any amounts advanced to Newfoundland in this way during the first three years should be treated as free grants.

Holders who fail to take advantage of the offer to exchange would receive no payment on account of interest or principal so long as there remains outstanding any part of the new guaranteed stock or any obligation by Newfoundland to the United Kingdom arising out of those undertakings.

II. Exchange of Telegrams between His Majesty's Governments in Newfoundland and the United Kingdom.

(1) Any telegram which may be received from Mr. Alderdice.

(2) Mr. Thomas to Mr. Alderdice, 19th November, 1933:

Your telegram No.

Chairman of Royal Commission on his return
from Newfoundland informed me of main conclusions and recommendations at which Commission had unanimously arrived together with a summary of the grounds on which those were based and I am sure that you will share our appreciation of the care and thoroughness with which the Royal Commission have investigated the whole situation.

I need not enter into details of the Commission's recommendations since their Report, which is being communicated by the Chairman to the three Governments concerned with a view to simultaneous publication in St. John's, Ottawa and London on the 21st November, will I understand be reaching you to-morrow.

After consultation with my colleagues I am now able to inform you that subject to the approval of Parliament His Majesty's Government in the United Kingdom are prepared, for their part, to accept the main recommendations of the Commission and that if these recommendations should be accepted also by the Newfoundland Government and Legislature they would propose immediately on being informed to that effect to invite Parliament to pass the legislation necessary to give effect to them.

Such legislation would be two-fold
in character (1) constitutional (2) financial. The first part would authorise the issue of new Letters Patent in accordance with the request of the Newfoundland Government and Legislature and the second part would give concrete shape to the financial recommendations of the Commission, whereby general responsibility for the finances of the Island would be assumed by the United Kingdom, until such time as it may become self-supporting again, on a basis which would secure to Newfoundland a reduction in the present burden of the public debt.

The following Memorandum is a detailed summary of the action which His Majesty's Government in the United Kingdom, subject to the approval of Parliament would be prepared to take under the two heads, constitutional and financial, each of which is conditional upon the other.

A. CONSTITUTIONAL.

1. The administration of the Island would be placed temporarily under the general supervision of the United Kingdom, and until the Island becomes self-supporting again the existing form of government would be replaced as an interim measure by a new form of government under which full legislative and executive power would be vested in the Governor acting on the advice of a specially created Commission of Government over which His Excellency would preside. The existing Legislature and Executive Council would for the time being be suspended.

2. The Governor-in-Commission would be responsible to His Majesty's Government in the United
Kingdom for the good government of the Island, the
general supervision of His Majesty's Government in the
United Kingdom being exercised through the Secretary
of State for Dominion Affairs. The existing Letters
Patent and Royal Instructions would be suspended and
new Letters Patent and Royal Instructions would be
issued in their place.

3. The Commission of Government would be composed
of six members, exclusive of the Governor. The members
of the Commission would be appointed by His Majesty on
the advice of His Ministers in the United Kingdom. Three
members of the Commission would be chosen from Newfound­
land, and three from the United Kingdom. The former
would be paid from Newfoundland funds, the latter from
United Kingdom funds.

4. Laws would be enacted by the Governor by and
with the advice of the Commission of Government. Laws
would take effect immediately on enactment but the power
of disallowance would be reserved to His Majesty. Advice
in respect of such laws would be tendered to His Majesty
by his Ministers in the United Kingdom. The laws in
force in Newfoundland would continue to be in force
under the new form of government, except as they might
be varied by legislation.

5. As in the case of legislation, so in executive
matters the Governor would act on the advice of the
Commission of Government. He would, however, be given
powers in executive matters to act in emergency on his
own initiative.

6. All appointments to, and promotions in the
Public Service, would be made by the Governor-in-Commission,
subject, in cases where the salary of the office
exceeded a specified figure, to the prior approval of His
Majesty's Government in the United Kingdom.
7. The members of the Commission of Government would take charge of, and would be responsible for the good working of the various Departments of Government. These would accordingly be divided into six groups, each under the control of a member of the Commission, and subject to the collective responsibility of the whole Commission.

8. All laws would be enacted, and all other matters coming before the Commission of Government would be decided, by unanimity or, if on any matter there should not be unanimity by a majority of the votes given. In the latter event, the Governor and each member of the Commission actually present would each exercise one vote.

9. As already indicated, the Governor would normally preside at meetings of the Commission of Government. In his absence, a Vice Chairman elected from among the Newfoundland members would preside.

10. In the event of the Governor being absent from the Island, either on vacation or by special permission, or in the event of the office of Governor being vacant, his duties would be assumed, in accordance with the existing practice, by the Chief Justice, who would thereupon preside over the Commission of Government.
B. FINANCIAL.

1. The financial obligations which His Majesty's Government in the United Kingdom would be prepared to undertake are conditional upon the acceptance in their entirety by the Government of Newfoundland of the main recommendations contained in the Report of the Royal Commission and of the proposals set out under both heads of this Memorandum, and upon the passing of the necessary legislation by the Parliaments of Newfoundland and of the United Kingdom.

2. As Newfoundland is unable, from her own resources to provide the interest on the public debt, general responsibility for the control of the finances of the Island would be assumed by the United Kingdom, until such time as Newfoundland may become self-supporting again.

3. On the assumption of such a responsibility it is proposed that holders of the public debt of Newfoundland other than debt falling within the categories specified in paragraph 10 of this part of the Memorandum, should be offered by the Government of Newfoundland the right to exchange their existing bonds or stock into a new sterling stock bearing interest at 3% redeemable at any time after 10 years at the option of that Government, and in any case after not more than 30 years, and guaranteed both as to principal and interest by His Majesty's Government in the United Kingdom. The new stock would, under the Trustee Acts of the United Kingdom, be a Trustee security of the United Kingdom.
4. Provision would be made for the establishment of a sinking fund of one per cent. per annum in respect of the new stock, to commence not later than 5 years from the date of issue, the annual appropriation to be guaranteed by His Majesty's Government in the United Kingdom.

5. Exchange would be made on the basis of £100 of the new 3% Guaranteed Newfoundland Stock, for every £100 of the nominal sterling value of existing stock or bonds of the Newfoundland Government or, in the case of existing bonds expressed in dollars, for every £100 of the nominal sterling equivalent at par of exchange.

6. The offer would be advertised in the Press in Newfoundland, the United Kingdom, Canada and the United States of America immediately after the passing of the necessary legislation in the United Kingdom and would remain open for a period of at least one calendar month thereafter.

7. It is intended that in the legislation to be introduced by the Government of Newfoundland authorising the issue of the new loan provision should be made that debt holders to whom the offer applies who had not within that period signified their acceptance of the offer in the prescribed manner should receive no payment of interest or principal so long as

   (a) any payment continues to be made by His Majesty's Government in the United Kingdom in respect of their guarantee of interest and sinking fund of the new 3% stock or
there remains outstanding any obligation by the Newfoundland Government to the United Kingdom on account of advances made (i) in respect of such guarantee of interest and principal or (ii) in respect of any further guarantee which the United Kingdom may give in fulfilment of the aforesaid guarantee in order to enable the Newfoundland Government to provide for the redemption of the principal of the guaranteed stock on maturity.

8. The advances made by His Majesty's Government in the United Kingdom to the Newfoundland Government in December 1932 and June 1933, and any advances that may be made in accordance with the terms of this part of this Memorandum during the next 5 years would be treated as free grants. Thereafter any such advance would be made on such terms as might be prescribed by His Majesty's Treasury in the United Kingdom.

9. The offer to be made by the Newfoundland Government would be conditional upon acceptance being received within the prescribed period from the holders of such proportion of the debt to be converted as His Majesty's Government in the United Kingdom might consider adequate.

10. Holders of the following portions of the existing debt would receive special treatment -

(i) Loans which are Trustee securities in the United Kingdom.

These comprise the three 3½% sterling loans of 1905, 1910 and 1912, redeemable in 1945, 1950 and 1952 respectively, and the 5% sterling loan of 1923, redeemable in 1943. The total amount is £2,014,000.
It is intended that holders of these stocks should retain their existing holdings which would be guaranteed as to principal and interest at their existing rates by His Majesty's Government in the United Kingdom.

(11) Specially secured loans.

The Prosperity Loan, 1932, amounting to £8,500,000 at 5½%, is repayable at any time. As it is specially secured on the proceeds of the petroleum monopoly, it is intended that it should be paid off at once, the necessary cash to be provided by an issue by the Newfoundland Government of the new guaranteed 5% stock.

Advances to an amount of £6,225,000 which have been made to the Newfoundland Government by local banks are specially secured by a general lien on the customs receipts of the Island. It is intended that these advances should be repaid forthwith, the necessary cash being raised in the manner indicated above.

11. Interest payments falling due 1st January 1934.

His Majesty's Government in the United Kingdom would propose to submit to Parliament an estimate to provide for the advance to the Government of Newfoundland of such amount as may be necessary to enable payment to be made –

(1) to holders of loans which are already Trustee securities of the United Kingdom, of the interest due on 1st January 1934, on the due date;

(ii) to holders of debt to whom the present conversion offer is intended to apply, and who accept that offer, of interest at such rate as they would have received on the 1st January if the conversion had been carried through before that date. Payment of interest in these cases would be made to individual stock and bondholders as soon as may be after they had complied with the procedure for converting their holdings.