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## Creating Market Failure: Exploring Business-Government Relations in the British Paper-Pulp Industry, 1950–1980

This article examines the nuances and complexities of business-government relations in the British paper-pulp industry between 1950 and 1980 through the prism of interactions between Wiggins, Teape & Co., a paper company, and various U.K. government departments in the postwar period. It highlights the complexity of business-government and interdepartmental relations and tensions, set against the global and domestic paper industry competition and the United Kingdom's international economic position. Longstanding industry underinvestment and interdepartmental tensions in government are identified as principal contributors to the failing competitiveness of the industry and of British businesses more generally in the twentieth century.

This article explores business-government relations through the prism of the interactions between a British paper manufacturer, Wiggins, Teape & Co., Ltd., and myriad British government departments in the former's attempts to develop its production capacity in the paper-pulp industry. In a similar vein to work by Jones and Kirby, it deploys both micro and macro analyses to achieve this and to shed light on the complexity of business-government interactions.<sup>1</sup> The article uses multiple data sources (company and governmental archives), parliamentary debates, official legislation, company films, newspaper reports, company histories, and personal correspondence to illustrate the interactions between the company and governmental officials at local, regional, and national levels to develop an innovative new integrated paper-pulp mill in order to meet a number of competing local, regional, national, and international interests. Set against the development of the British paper-pulp industry and changing international context, this article illustrates the complexity of interactions within business-government relations that in turn resulted in a number of difficulties for both the company and government in seeking to meet their aims. In doing so, it sheds light on the twentieth-century British paper industry—which, unlike its Scandinavian counterpart, has rarely been covered in business history—and offers a further explanation for the decline in British industrial competitiveness in the twentieth century.<sup>2</sup>

### Business-Government Relations and the Role of Government

A number of works by business and economic historians have considered government in terms of state-owned enterprises, regulatory bodies, or economic development, but these are still relatively sparse.<sup>3</sup> This is particularly so for British business-government relations in the post-1945 period, with only a few studies on the matter.<sup>4</sup> Business-government interactions are often a complex interplay of politics, policies, personalities, and external factors, which can present difficulties in engagement and result in frictions not only between business and government, but also between government departments.<sup>5</sup> Business-government relations are often difficult to track and require an understanding of multiple motivations and contexts, as well as archival materials, which may explain the paucity of work in the area. Nevertheless, their study offers a potentially rich area for investigation by business historians where both public and company records can be analyzed in tandem to offer deep insights into

governmental roles in business formation and development, company activities, and economic development, as well as the potential for a richer understanding of wider economic and business historical change. The relevance of such studies to business history is highlighted in a recent article by Geoffrey Jones and Christina Lubinski, who argue that “the management of distance was replaced by the management of governments as a central challenge” for firms over the course of the twentieth century, suggesting that exploration of such relations should be an important consideration for business historians.<sup>6</sup>

With the recent global financial crisis in the banking sector and large-scale public bailouts in the Western capitalist systems, much of the focus on the relationship between business and government has been on the role of government as responding to market failure, based on the assumption that the government’s function is to act only as a corrective influence on the market. However, throughout the twentieth century, governments in developed economies took a much more active role in creating industries, technologies, and markets than current expectations allow. Recent work by Mariana Mazzucato has suggested that government can act (and has acted) as a catalyst for technological innovation, the creation of new markets, and new business opportunities, and as a provider of capital (financial and nonfinancial), going beyond neo-institutional characterizations of government as the setter of rules and considering it as both a rule setter and economic *and* business actor in of itself.<sup>7</sup> Mazzucato’s analysis encompasses a range of industries and crosses national boundaries, suggesting that existing characterizations of governments as interventionist or laissez-faire may be both incomplete and inaccurate, partly influenced by the dominance of neoclassical growth models in modern-day policymaking. Mazzucato argues that characterizations of the state as simply intervening are not reflected in the history of technological change, or indeed economic and business change.<sup>8</sup> In the United Kingdom, she posits, the state has “forgotten how to be entrepreneurial” and has focused on fixing market failure rather than creating markets.<sup>9</sup>

In terms of British economic and business history, portrayals of the role of government in relation to business are typically not effusive. Geoffrey Jones and Maurice Kirby considered the British government’s attempts at stimulating industrial and business competitiveness in the twentieth century, providing a range of analyses of both macro and micro levels, and found that the government did little to help British industry and in fact contributed to its sclerotic development and declining

competitiveness during the period.<sup>10</sup> Similarly, Correlli Barnett's book *The Lost Victory* attributes British relative economic decline in the initial postwar period to governmental and political mismanagement of the economy.<sup>11</sup> Sir Alexander Cairncross, former head of the U.K. Government Economic Service, attributed the relative decline in competitiveness of British industry during the post-1945 period to the changing economic circumstances internationally and the varying attempts by government to find an appropriate approach to economic management, veering from central control to a managed economy through to a Hayek-inspired free market approach.<sup>12</sup> Consistent within each of these studies is recognition that business-government relations were an important consideration, and the role of the state in developing both the conditions and context for business to thrive was impacted not only by the state's own institutional structures and the environment in which it operated, but also governmental intervention to correct market failures.

The rationale for fixing market failure is one borne of the belief that government is not active in the market in the first place—that it intervenes to address and fix an issue, then retreats back to its watchful position on the sidelines, while businesses and other organizations undertake the economic activity. As a justification for more governmental involvement in markets, market failure has been used habitually to warrant governmental “intervention” in the economy or business activities of a country, predicated on the belief that the market is self-correcting (or should be) and that government should only intervene when imbalances in the market occur creating sub-optimal outcomes.<sup>13</sup> Recent work by Niklas Jensen-Eriksen and Jari Ojala on the Finnish forest industries has considered the question of the efficacy of governmental involvement, within the context of market failure, and the challenges firms face in engaging with governments.<sup>14</sup> In their analysis, the authors found that Finnish industrialists were able to convince government that cartelization in the industry was in the national interest, which resulted in a number of unintended consequences including the promotion of one forest industry over others. Jensen-Eriksen and Ojala provide another perspective on intervention, arguing that it is “based on the implicit assumption that policy makers *are* able to predict that markets are incapable of tackling ‘failures’ and that government intervention will lead to an improved situation. After all, no one would support an intervention if the failure is expected to disappear anyway.”<sup>15</sup> However, if business-government relations and business history analyses of the subject

to date are anything to go by, government interventions rarely lead to improved situations.

#### Context: The United Kingdom and the Paper-Pulp Industry, Post-1945

The post-1945 period for the United Kingdom and its government was one of domestic reconstruction and retrenchment from its previously dominant global position. The experience of war is important here—the U.K. government had to enact control and direction of the economy and business during the war effort. Consequently, after the war, when looking for ways in which to deliver on its promises of a prosperous and egalitarian society, the British government actively involved itself in almost all aspects of economic and business activities by implementing and/or continuing controls on imports, nationalization of companies, investment in and the creation of new industries and technologies, and the upgrading of existing industries. Where it deemed appropriate, the government was quite willing to invest significant amounts of time, money, and manpower in industries that it considered strategically important in helping it meet its aims. This resulted in support for nuclear power, aluminum, aircraft and engine development, automobiles, extractive industries, and shipbuilding (among other industries) in the immediate postwar period, alongside the reconstruction efforts in infrastructure required by the ravages of war. As well as reconstruction, ongoing problems with balance of payments, aligned to the withdrawal from Empire and attempts at renewing industry, saw the U.K. experience significant problems with its productivity beginning to lag behind that of global competitors and ongoing debates about the decline of British industry becoming increasingly prominent.<sup>16</sup>

The British paper industry up to and just after World War II was one of the industries that benefited from governmental protection and support.<sup>17</sup> During the war, it was taken under governmental control, where all imports of pulp, esparto grass, and wood pulp were made through an official Paper Controller until 1950, before the last of the controls on imports of raw material and paper were removed in 1956, leaving the industry to adapt to its new situation.<sup>18</sup> In the postwar period, the British paper industry was a seller's market, with strong domestic demand and a number of companies seeking to expand internationally and diversify their operations, principally Bowater and Reed moving into North American markets. The industry during this period was optimistic; papermakers were happy with the government-enforced quotas and controls that had

protected their domestic position and were planning on investment to meet the growing global demand for paper, which to that point had outstripped supply.<sup>19</sup> However, this optimism was soon punctured when the British government in the late 1950s agreed to enter the European Free Trade Association (EFTA), requiring removal of tariffs for membership.

As a result of EFTA membership, British paper companies faced what they perceived to be significant competitive threats from Scandinavian producers moving into their hitherto largely safe domestic markets.<sup>20</sup> The British Paper and Board Makers' Association considered EFTA membership a "mortal blow" to the industry, with the papermakers considering it a "stab in the back" and a rejection of their previous plea to government to be protected as an "essential industry."<sup>21</sup> Generally speaking, this saw capital expenditure in the industry decline both as a direct result of the fear that the industry would be squeezed out by cheap Scandinavian imports, and as a longer-term failure of the industry to modernize in comparison to its Nordic competitors.<sup>22</sup> However, the industry made a few attempts at modernizing, with British paper companies instead looking to develop product lines by exploiting homegrown resources for their production capacity to compete against their international rivals.<sup>23</sup> One such attempt was the creation of Britain's first pulp mill, to utilize domestically grown wood for the paper industry.<sup>24</sup>

In a House of Lords debate on forestry in late 1958, it was stated that Britain was the largest importer of timber and timber products in the world, worth about £370 million annually, with 90 percent of its consumption coming from imports.<sup>25</sup> To address this overreliance, the Scottish, forest-owning Earl of Airlie argued for government support in establishing a pulp mill in Scotland "as quickly as possible," after other forest-owning Scottish lords had suggested the same solution to the growing availability of forestry raw materials and the overreliance on imports from abroad. The longstanding afforestation program in Scotland also caught the attention of some entrepreneurial British paper companies. Seeing both a business and a development opportunity, the interest in constructing a pulp mill was a combination of the threat from overseas competitors and a natural reaction to the reliance on imports of pulp, making a powerful argument for constructing a mill to attempt to address these issues. In early 1959 a consortium of paper manufacturing companies—Wiggins, Teape (the lead partner), Bowater (most of whose production was based on imported pulp), the Reed Paper Group, and Thames Board<sup>26</sup>—came together to form Scottish Pulp

(Development) Ltd., expressing an interest in siting a mill in the Scottish Highlands to take advantage of the untapped forestry resource amid increasing global competition in the paper industry, which was making life difficult for British paper manufacturers.<sup>27</sup> The managing director of the consortium, Dr. Theodore Frankel, a Jewish refugee from Austria and director of Wiggins, Teape, had learned of the reforestation in Scotland while on holiday in the South of France with a colleague and identified the potential of pulp and paper making in the area.<sup>28</sup>

The consortium caught the eye of U.K. government officials in Scotland keen to develop industry in peripheral areas to offset population decline. Upon learning of the consortium's interest, the Scottish secretary of state Jack MacLay directed his officials in the Scottish Office to assess the employment potential of the project and meet with Frankel, where discussion centered on the consortium's plans for a mill that Frankel envisaged being in Fort William in the West Scottish Highlands.<sup>29</sup> Two days later the *Glasgow Herald* newspaper ran a story with the headline "Highlands May Have Wood Pulp Mill" detailing how government was "intensively" studying the idea that a pulp mill may happen, "if private industry can be persuaded to build it."<sup>30</sup> In August 1959, in a joint event organized by Lord Polwarth, the chairman of the Scottish Council (Development and Industry), Scottish Pulp announced its intention to look into building a mill in Fort William, the first of its kind in the United Kingdom. The company stated that only a "really large" mill would have a chance of economic survival and that as a result the prospective mill would use 12 to 15 million cubic feet of pulpwood per year. Frankel said,

At present there is not enough wood in Scotland for such a mill to operate but there is an increasingly large supply. A major problem however will be to obtain raw material at a price that will allow us to compete with the extremely efficient mills in Scandinavia. . . . If we can build as efficient a mill as the modern Scandinavian plants, we will be very happy. What we have to do is cut the cost from standing tree to the mill. Scotland's forests are, in comparison with Sweden and North America, small and well dispersed, and we must bring wood from the forests as economically as possible. . . . Unless we can compete with other countries at that stage of the project we will not be able to operate.<sup>31</sup>



Polwarth went on to state, “Now it is most welcome that four of the leading papermakers in Britain are prepared to put down not only cash, but the services of their experts to carry on the investigation.”<sup>32</sup>

A series of meetings took place between the consortium and Scottish and U.K. government officials including the Board of Trade, Forestry Commission, and Scottish Office regarding exemption of certain kinds of pulpwood from import duty in respect to the mill’s need to import wood until the maturation of Highland forests.<sup>33</sup> Scottish Secretary Maclay was briefed that the Board of Trade was “not unsympathetic” to Frankel’s request.<sup>34</sup> At a meeting between the consortium and Scottish officials, it was indicated that the site would have “special difficulties” in relation to the water supplies and access for shipping that would make the project “uneconomic.” This was especially the case in relation to pulp mills constructed in Sweden, where they were generally built at the mouth of a river and had ready access to timber, fresh water, and the sea for discharge of effluent. The consortium maintained that a grant would be required to offset the capital cost of the necessary installations for the project to go ahead.<sup>35</sup> The company thus wanted guarantees of financial support from the government. One Scottish senior civil servant commented that

The Board of Trade’s view about the industrial aspect of the wood pulp development has already been expressed by the issue of the industrial development certificate. We can, however, stress the importance of this development for the Highlands and that our over-riding interest in this matter is that this project should be secured for the Highlands.<sup>36</sup>

Scottish officials minuted that, as a result of the special difficulties mentioned, locating the mill in Fort William would make the project “likely to be abnormally costly by comparison with the Scandinavian mills” and that the company would “seek direct financial assistance towards the capital cost of the water supply installation and the jetty” on these grounds.<sup>37</sup> This dampened the Board of Trade’s initial enthusiasm for the project, so Frankel played the national-interest card, commenting that the consortium were trying to put forward a “sound scheme in the national and industrial interests.”<sup>38</sup>

National and industrial interests were beset by practical concerns, however. There was anxiety in official circles regarding the smell emitted by the proposed mill (one similar to “cooking cabbage” or “silage,” according to Frankel) and its effect on the locale. Meteorological advice on the matter allayed these fears, noting that the town would be affected by the smell only one day in ten at worst in the summer and hardly at all in the winter months.<sup>39</sup> A number of official concerns were posted in response to the consortium’s local planning application for development over the potential for pollution of the loch from the effluent discharged and pollution of the air from the mill.<sup>40</sup> These were passed to Maclay, who made it clear he was

most anxious that this project should materialise. It may founder on technical Board of Trade Monopolies Commission complications, on the price of timber, or the cost to the company or the Government. But it would be tragic if all these difficulties are overcome and we then have an outburst of local trouble. . . . The importance of the project to the North West of Scotland goes far beyond the visible 400 employees.<sup>41</sup>

As the senior Scottish member of the U.K. government with ultimate planning responsibility, Maclay’s support for the mill was crucial to its chances of being built. Further, he made it clear that if any problems came to the new mill from the Forestry Commission in the price of timber, he would not be averse to “bridging any gap by a subsidy on social grounds if the scheme would otherwise founder” so as to ensure the commission received a fair price and the mill obtained timber at a competitive price.<sup>42</sup>

#### Leveraging Political Will: The Mill, the Bill, and Construction

By 1961 the United Kingdom was importing 97 percent of its consumed sawn softwood for paper production, of which 88.7 percent came from Finland and Sweden.<sup>43</sup> By 1962, the U.K. was the fourth-largest producer of paper in the world, but still overreliant on pulp imports to meet demand and characterized by low profit margins resulting in low investment in new facilities and machinery.<sup>44</sup> Thus, with increasing demand at home for paper and the reliance on wood pulp from abroad the industry felt it was exposed to potential fluctuations and increases in pulp prices if it did not address the issue.

The consortium spent much of 1961 formulating and amending its plans for the mill. Toward the end of the year the decision was made, regarding the necessity of initially importing wood, to take advantage of economies of scale by including a paper mill to produce 40,000 tons per year of educational paper and medium-to-heavy-weight printing grades, and to introduce a second paper mill at a later stage, doubling output. It was thought that a pulp mill alone could not compete in providing pulp to paper manufacturers.<sup>45</sup> Bowater and Reed then both left the consortium, as their principal interest was in the pulp, not the paper and so the addition of the two paper mills would use up the pulp produced and leave them with nothing.<sup>46</sup>

The two remaining members of the consortium—Wiggins, Teape and Thames Board—decided on the Swedish Stora process of pulp manufacture (rather than the kraft process more commonly used in Sweden, the United States, Finland, and Norway), which needed specific wood types but could produce a wider range of papers.<sup>47</sup> The Stora process had been recently used in mills in Canada, France, and the United States and could utilize both hardwood (to be imported from South Africa) and softwood types (useful for Scottish forests), but was still a new process.<sup>48</sup> Both are chemical pulping processes in which the wood is “cooked” with chemicals to produce the pulp; the kraft process used sulfate, the Stora process used sulfite.<sup>49</sup> Kraft was more proven and used more commonly by mills worldwide, but it produced an obnoxious smell and had a large timber requirement that would have stretched Highland resources to the limit. These two factors, although not insurmountable, persuaded Scottish Pulp to choose the less well-used but newer Stora process at the behest of the local authorities, who made clear they would not accept the smell associated with the kraft process, in order to preserve Highland amenity.<sup>50</sup> Other mills using the kraft process did not have the same political issues to deal with—for example, in the southern United States, where a number of paper mills using the process were located, many of the local representatives were of the opinion that there was no reason for the federal government to legislate against pollution from the mills.<sup>51</sup> In Sweden, air pollution was a concern and paper and pulp companies worked together to reduce pollutive outputs from their sites by investing in R&D<sup>52</sup>—something British paper companies were apparently loathe to do more generally.

Thames Board dropped out on the basis that a mill making paper and pulp, as well as the kind of board the market required, would not have suited its needs. Thames believed that with the advent of the European Common Market, it could not hope to

sell its board product in Europe and the domestic market was unlikely to offer a “satisfactory outlet.”<sup>53</sup> Scottish Pulp then changed its name to Scottish Pulp and Paper Mills Ltd. (as a subsidiary of Wiggins, Teape) to reflect the newly envisaged mill’s operations. Wiggins, Teape was the last company standing from the original consortium—a point on which Frankel later spoke of his disappointment.<sup>54</sup> There were a number of reasons for sticking with the project: the imminence of EFTA implementation and the attendant threat of Scandinavian pulp manufactures exporting freely to the U.K. was the main one, but the company was also seeking to secure its own vertically integrated supply and manufacturing capabilities. An integrated mill, it was supposed, would allow Wiggins, Teape to control the upstream supply chain while seeking to increase downstream distribution and marketing channels selling the high grade paper products it specialized in.<sup>55</sup> The mill would harness technological advances and the maturation of Scottish forests, as well as provide the company with what was the largest chemical pulping operation in the U.K. located close to the source of production, in line with its Scandinavian competitors.<sup>56</sup>

The new plans for the mill resulted in increased costs, as well as increased direct and indirect job creation (of 870 and 1,750, respectively), making it more attractive to Scottish officials, but more difficult to sell to their counterparts in London.<sup>57</sup> The decision to locate the mill in Fort William was made so that it would be near a steady supply of timber, clean water, and easy access for imports of wood (by sea, rail, or road), as well as due to the availability of a site.<sup>58</sup> The Scottish Office was thus faced with the task of gaining financial support for the venture from the Treasury and Board of Trade (as purseholders and managers, respectively) at a premium cost per job, meaning special treatment of the project would be required in order to push the project through.

Scottish support did not extend to London, where the Board of Trade and Treasury were (rightly) doubtful of the economics of the project. The outgoing secretary of state for Scotland informed the prime minister—in light of declining Scottish industries of coal, steel, manufacturing, and railways—that “things are very bad there; there is gradual decay.”<sup>59</sup> In July 1962, Michael Noble was appointed as secretary of state for Scotland. By the second half of 1962, Scottish Pulp had applied to the Board of Trade for a loan of £6 million, but was informed that it was unlikely the company would receive more than £3 million. By the end of July, the Board of Trade, under pressure from Scottish officials and Noble, had reconsidered its position and

stated that it would consider the original £6 million ask, although it later made clear that the financial demands made were “very heavy,” but that “the project has raised such high hopes in Scotland that there might be considerable political difficulties if it did not go ahead.”<sup>60</sup> A Treasury official, mindful of the cost, weighed in, stating, “My own impression, which Dr Frankel rather confirmed to me, is that the world has surplus capacity for the production of wood pulp. If so, it is not obvious why a new mill in a rather out of date place should survive.”<sup>61</sup>

By November it was fairly clear that a pulp mill was going to go ahead, but the question of how to finance it still remained. The Board of Trade continued to be very skeptical, with some reluctance to talk to the Scots: “It would be as well at this stage not to talk to the Scots, we don’t want to put ideas into their head earlier than they will get there anyway.”<sup>62</sup> After Thames Board’s withdrawal from the consortium in September, Scottish Pulp and Paper Mills Ltd. changed its request to an £8 million loan from the Board of Trade, arguing that it could only realistically raise £6 million of private funding for the project (this was to come in part from its recently sold shares to BAT), itself estimated to cost around £14 million, and that it expected to earn no more than 7 percent on its investment for the first fifteen years.<sup>63</sup> The Board of Trade made a provisional offer to the company of £6 million under the Local Employment Act, but in light of Thames Board’s withdrawal from the consortium and with its proposed £6 million investment, Wiggins, Teape required £10 million if the project was to go ahead.<sup>64</sup> Lord Polwarth wrote to the prime minister confirming this (at the prime minister’s invitation) and stressed again the importance of the project to the Highlands:

I only want to reinforce what I know Michael Noble has told you, namely the vital importance of this project for the future of the Highlands. . . . It is also important that a decision be taken as quickly as possible, as I know the company are beginning to feel they cannot delay matters any longer. <sup>65</sup>

The rising costs of the mill and the fact that three of the original four interested private companies had bailed out of the project only seemed to increase the will of the Scottish officials to win backing for the mill. This was not the case in London.

The Board of Trade was increasingly concerned about the rising costs and made clear it would consider an outside limit of no more than £7.5 million, based on

commercial risk and on the high “cost per job” figure this would entail. The mill project under the company’s application for £10 million from the government would result in a cost per job of £3,500, compared to £2,500 under the outside limit of £7.5 million under the Board of Trade’s maximum figure for support. The Board of Trade did, however, privately concede that there would “clearly be no point in certifying for a sum less than £10 million,” but that to do so would require a “radical change in the criteria which have previously been applied.”<sup>66</sup> Scottish ministers felt that the project was of such importance to the Highlands—industrially, economically, and socially—that it justified special treatment. The Board of Trade did not.<sup>67</sup>

Scottish Development Department officials wrote a note on the matter entitled “The Significance of the Pulp Mill in the context of Highland Depopulation,” detailing the department’s attitudes to the problem of depopulation in the Highlands and what was to be done to address it.<sup>68</sup> Prime Minister Harold Macmillan wrote to Lord Polwarth, stating that the project raised financial issues that would need further consideration, but that the matter was being treated with “great urgency.”<sup>69</sup> Upon signing the letter, Macmillan clarified to the Board of Trade and the Scottish Office that the project “must not fail merely because of lack of agreement between Departments, and added that it must if necessary come to the Cabinet.”<sup>70</sup> Although the Board of Trade had deep misgivings about the mill, Macmillan had been swayed by the arguments put forward by the Scottish Office and his minister. With the prime minister on board, along with the secretary of state for Scotland, building the mill was inevitable.

In early January 1963, Noble met with Macmillan and his chancellor, Selwyn Lloyd, whereupon he agreed with Macmillan’s point that going ahead with the government support required for the project, now set officially at £10 million, would not be appropriate under the provisions of the Local Employment Act. Macmillan preferred that special legislation be introduced authorizing the provision of the required funding.<sup>71</sup> It was agreed that the British government would proceed on getting an act through Parliament that would allow it to provide financial to Scottish Pulp and Paper for constructing the mill, with other necessary improvements to the area to be taken on by local government. Wiggins, Teape during this period was developing a new paper product in America with National Cash Registers (NCR) that required considerable research input, distracting the company from keeping an eye on the developments in Scotland.<sup>72</sup> Frankel, having conceived of the project initially, was effectively in charge of solving the logistics for it, including keeping the train line open to Fort William for

supplying timber to the mill.<sup>73</sup> This was followed by a request by the President of the Board of Trade that Frankel go through Wiggins, Teape's accounts to check for any issues that would affect its ability to repay the loan. The company, sensing the prevarication in granting a loan, again sought to circumvent the Board of Trade and spoke with the Scottish minister of state, as well as the secretary of state for Scotland, to leverage further support from other U.K. Cabinet members.<sup>74</sup> It worked. The prime minister maintained a keen interest in the project's development, believing it would be a significant political win for his government, and wrote a further missive to Noble stating, "I was disturbed to learn at our discussions yesterday morning that we still do not seem to be in sight of decisions on . . . the Fort William Pulp Mill. . . . We cannot afford to wait indefinitely for the perfect solution."<sup>75</sup> Special legislation would be required.

On April 3, 1963, the Chancellor of the Exchequer Reginald Maudling announced in his budget speech that the government had "agreed to make a loan to Wiggins, Teape to finance the construction of an integrated pulp and paper mill at Fort William. The mill will provide a most valuable complement to the work of the Forestry Commission in the area and I am confident that it will help with the establishment of a thriving community there."<sup>76</sup> The forestry industry in Scotland were certainly supportive of the new mill.<sup>77</sup> A week later, the Fort William Pulp and Paper Mills Bill 1963 was presented for its second reading in Parliament.<sup>78</sup> The discussion centered on the effect the mill could have on the U.K. national balance of trade. One member of Parliament (MP) remarked on the need for an outlet for the timber being produced by the country as well as Britain's trade deficit with Canada (£154 million), Finland (£33 million), Russia (£26 million)—all of which exported timber and finished timber products to Britain—and Sweden. These four countries provided Britain with £141 million worth of timber and timber products, a figure described as "a considerable sum at a time when we are always considering our balance of payments."<sup>79</sup> The same MP also believed that the situation concerning imports of timber and timber products would become worse with the coming of the EFTA agreement in 1960, that the bill did not take wide enough powers for the establishment of further mills all over the country, and that the Fort William mill should be the first of many to go some way to relieving the imbalance—a point supported by other MPs in their speeches.<sup>80</sup>

Nonetheless, the bill was passed with the government committing itself to providing a loan of up to £10 million, as well as grants of £1.3 million under the Board

of Trade's auspices in relief on interest on the loan to Wiggins, Teape as the parent company of Scottish Pulp and Paper Mills Ltd. The interest on the loan was set at 5.5 percent (compared with a rate of up to 6.25 percent had the money been raised in the city)—a point of contention with the Treasury, which was “by no means happy with this aspect of the arrangements.”<sup>81</sup> The company was to commence repayments three years after the initial installment of £8 million was made for the first phase of construction.<sup>82</sup> Repayments would be made in ten equal installments over a period of ten years.<sup>83</sup> With Scandinavian pulp prices falling—meaning not only was a surplus of pulp entering the market, but prices were also falling<sup>84</sup>—the new mill was entering a buyer's market suffering from excess capacity and falling prices. It would have to operate at maximum capacity just to survive, let alone become profitable. In a note on a telex between the Edinburgh and London offices of the Scottish Office after the mill was built, a Scottish official commented, “If it had been left to the Board of Trade then there would have been no pulp mill!”<sup>85</sup>

Construction of the mill was the biggest industrial project to be introduced in Scotland since World War II. However, construction did not go smoothly, with disagreements between the county and burgh councils. Regarding Frankel, it was said that

had he known the difficulties of construction in Scotland the timetable would have been longer. He commented ruefully that one had all the disadvantages of an under-developed country without the freedom of manoeuvre that Africa and South America gave. The feuds between county and burgh councils hindered negotiations, the lack of civilised amenities depressed the workmen's morale and caused heavy drinking and absenteeism.<sup>86</sup>

Having overcome construction issues, the mill opened for business on September 15, 1966, with an austere ceremony, amid concerns that a glitzy affair would be open to criticism in the press in light of the “stringent economic situation confronting the country.”<sup>87</sup> Reflecting on this, Frankel said, “When we built Scottish Pulp we were thinking in terms of an industrial project and suddenly we found a social revolution on our hands.”<sup>88</sup> The social revolution had a clear national economic benefit, however. Wiggins, Teape managing director G. B. C. Johnson wrote in the *Financial Times*



*Annual Review* that the mill and its outputs “will help the [U.K.] balance of payments position by millions of pounds annually [and] have come about as a direct result of the foresight of foresters who planted before the war.”<sup>89</sup> The vertical synthesis between national, local, and industrial benefit was clear. From a business perspective, Frankel and Wiggins, Teape had managed to secure significant public financial support to offset the capital outlay for the largest chemical pulp mill in the United Kingdom at a time when the paper industry had invested little in new machinery or technology. The social-revolution narrative had served the company very well in gaining support at the top levels of British government and at the regional level in the Scottish Office and Scottish press. The mill was never likely to compete with the established Nordic competitors, but it was pitched to government as a capital outlay that would reduce imports on an ongoing basis, address regional disparities, help the balance of payments, and pay for itself within a few years. The Board of Trade and Treasury were unconvinced of the economics of the project from a relatively early stage, but politics took primacy in the decision making.

#### Postscript: Operations, Closure, and the U.K. Paper-Pulp Industry

Once the Fort William mill opened, the government took a back seat. However, technical problems during the first year of operation saw the mill lose £1.6 million. During the second year, it lost the same amount again. Mark Norman, the chairman of Wiggins, Teape, warned, “We are making good progress with the technical problems at Fort William, which is moving steadily towards its planned output. But the economics of pulp production in the Highlands, with intense international competition and high wood costs, are not yet clear.”<sup>90</sup> The mill was experiencing higher operating costs than projected because it was unable to get wood for the same prices as its Scandinavian competitors (many of which owned their own forests), meaning it couldn’t lower paper prices in light of fierce domestic and international competition from the efficient integrated mills in Canada and Scandinavia.<sup>91</sup> Further, the government had made it clear to industry that it was unwilling (and unable) to protect any industry by quotas.<sup>92</sup> By late 1968 the pulp mill was producing only 60,000 tons annually. The problem of higher operating costs was attributed in part to the removal of EFTA tariffs at the end of 1966 and in part to the economic situation in the United

Kingdom generally; ironically, these had been two motivations for establishing the mill in the first place.

Overall, the 1960s was a period of growth for the paper industry, however; Wiggins, Teape, Thames Board, Bowater, and Mardon Packaging International all bought or constructed new mills. The development of home resources such as waste paper and the maturation of forests contributed markedly to this growth.<sup>93</sup> The industry's expansion was intended to strengthen domestic production in light of the increasing demand at home. In order to achieve this, the companies had to build pulp mills to supply their paper mills and protect themselves against potential foreign price increases. Changes in the structure of the international paper market saw demand move toward lighter-weight and higher-specification papers for which the mill's Stora process was unsuitable, resulting in Wiggins, Teape applying to government to delay repaying the loan for three years, starting at the end of 1971.<sup>94</sup>

The 1970s was a very different experience than the previous decade for the U.K.-wide industry. In 1971–1972 the industry experienced a sharp decline in production, the result of a fall in newsprint production (one of the main outputs of production) due to delayed modernization of equipment characteristic of the industry, and late adjustment to the open international environment.<sup>95</sup> The Fort William mill did not escape these problems, and its operational difficulties were exacerbated by a further contraction the industry encountered as a result of the oil shock of 1973–1974 and attendant transport-cost increases and inflation. British entry into the European Economic Community (EEC) in 1973 did little to assuage concerns in the industry.<sup>96</sup> A decline in consumer confidence and deceleration of industrial production led the paper industry to experience an economic downturn that was to continue until the late 1980s. Wiggins, Teape had grown by this point to become the largest manufacturer of fine and specialty papers and largest exporter, in value, of paper products in the United Kingdom.<sup>97</sup> Although consumption grew, it was only a modest increase, whereas production decreased from the highs of the 1960s and international competitors increased their imports to the U.K.<sup>98</sup> The depressed demand had the effect of decreasing labor numbers over the period. By 1979, with the company employing about 950 people at the plant, only 40 percent of the paper mill's requirements were being satisfied from the pulp mill and 75 percent of the pulp was being sent to other U.K. mills. The mill's costliness and its process for producing pulp meant it could not compete with the other

mills in production around the world, resulting in its closure in 1980.<sup>99</sup> Wiggins, Teape repaid the government loan in full to the Board of Trade upon the pulp mill's closure.<sup>100</sup>

The British paper industry in the early 1980s was in a state of despondency—the closure of the Fort William mill was accompanied by the closure of Bowater's Mersey mill shortly after, as a result of the overvaluation of sterling and attendant losses. The industry, in common with other British industries at the time, then faced a flurry of takeovers, management buyouts, and consolidation with rationalization and reorganization characterizing the changes.<sup>101</sup> Both Reed and Bowater withdrew from papermaking in the U.K., with Bowater splitting and floating its U.S. operations as an independent company; Thames Board was sold by parent company Unilever to Iggersund and BPB Industries; and Wiggins, Teape became part of Arjo Wiggins Appleton, an Anglo-French concern.<sup>102</sup> The effect of these changes in the industry was to unleash the capital investment for modernization that had been lacking in previous decades; technical improvements, increasing world competition resulting in leading foreign companies building or purchasing mills in main markets such as the United Kingdom, and a change in the U.K.'s political and economic climate made this possible.<sup>103</sup> The industry moved into the 1990s rationalized, reorganized, and on a more internationally competitive footing, albeit largely out of British hands and less reliant on government subsidy and support.<sup>104</sup>

## Conclusion

British business competitiveness in the twentieth century was the subject of various attempts by companies and governments to address perceived and actual deficiencies. The paper industry and Wiggins, Teape's interactions with the U.K. government are illustrative in showing how British business-government relations were directly affected by the nature, structure, and context of engagement—Britain was undergoing significant change during the postwar period, including adapting to its new position within the global economy, attempting to modernize its industry, battling with balance-of-payments concerns, and seeking to address domestic issues such as regional development. When the interactions between government and business in the United Kingdom during the twentieth century are considered by business historians, it is important to remember that government was not a single unified presence, but rather a collection of competing agendas at local, regional, and national levels impacted by

different pressures at different times. Wiggins, Teape—and Frankel in particular—skillfully navigated these agendas and leveraged financial and political support at very high levels in ways that the industry had not been able to previously.

For Wiggins, Teape the mill was a measure of its growth aspiration. It was to help the company strengthen itself as an international operator; the company believed it needed the mill and supply chain to compete with its European competitors.<sup>105</sup> By early 1965 the company had increased its exports by 70 percent over the previous four years, with its 1964 exports totaling £8 million, or more than a quarter of the industry's total exports.<sup>106</sup> The company felt the new mill would help improve performance still, while securing a domestic supply chain in light of the coming EFTA removal of all tariffs on wood products in 1966 and saving Britain £8 million per year.<sup>107</sup> On the back of significant opposition from the Board of Trade and the Treasury, which both balked at the costs involved, the political maneuvering by the company and Scottish officials to gain the support of the Prime Minister was critical to the mill's creation. As skillful as the company's navigation of the competing agendas within the U.K. government was to get the mill up and running, it was ultimately a bold experiment that never made a profit, introducing market failure into an area that had a shortage of labor in the 1950s, before the mill was built, and an unemployment rate of 18.3 percent in 1983 after it closed.<sup>108</sup>

With its overt reliance on government for protection, support, and finance in the pre- and postwar periods, the British paper and pulp industry was ill prepared for the shift toward free trade that EFTA and the EEC memberships required; as such, it turned, predictably, back to government for help in managing the transition. The lack of capital expenditure on modernization in the British paper industry contributed to the sclerotic development and declining competitiveness of the U.K.'s industrial base more generally. Combined with the difficulties of dealing with the different levels of government, British papermaking companies found themselves operating at a distinct disadvantage compared with Nordic and North American companies. The interactions detailed in this analysis are instructive in showing how competing agendas and political pressures involved in business-government relations have a direct impact on competitiveness. Periodization and context in this instance are important; the public afforestation program in Scotland afforded an opportunity for entrepreneurial British paper companies that were finding it difficult to compete with more efficient and established international rivals. Supportive Scottish officials and senior U.K. politicians

saw an opportunity to use business and technology to address policy goals including encouraging industrial modernization, bringing industry to a peripheral area, and helping the balance of payments. However, the primacy of political issues directly begot the technical and commercial problems soon suffered by the mill that ultimately usurped the competitiveness of the venture. The Scottish officials' inability to see the uneconomic nature of the project existed in conjunction with the Treasury's and Board of Trade's unwillingness to support the mill, fitting closely with Jones and Kirby's conclusions around the underlying problems of British productivity and competitiveness and the government's role. The story of the mill is by no means unique in analyses of British twentieth-century decline—similar well-known stories abound across manufacturing and extractive industries such as aluminum, shipbuilding, steel production, and coal.

For business historians, business-government relations offer a fruitful route to understanding changes in industries, shifts in forms of capitalism, and technological developments. It is difficult to understand the British paper industry in the twentieth century without considering government as both an actor and an influence on the context surrounding the industry. The engagement with government during the early and mid-twentieth century was characterized by want on the part of the industry—it actively sought governmental protection and financial support until the 1970s by playing on the political capital to be gained, in part because it was a labor-intensive industry. Despite its better economic judgment, the U.K. government involved itself more in the industry but did little to help it modernize, similar to its activities in other industries such as aluminum, car production, and shipbuilding. Geoffrey Owen avers that “if Britain had joined the European Common Market at the start . . . some of the modernisation and rationalisation that took place in the 1980s and 1990s might have occurred earlier.”<sup>109</sup> It was not until the Conservative government came to power in 1979 under the promise not to support “lame duck” industries that the industry undertook long-overdue rationalization and reorganization, without government help. As Jensen-Eriksen and Ojala found in their analysis of the Finnish forest industries, policymakers are often ill equipped to predict or fix markets, let alone the effects their direct involvement in them may bring. The story of the British paper industry in the twentieth century tells us that despite the resources governments can deploy at their will, as Mazzucato argues, focusing on creating and helping to develop markets rather than trying to fix them may be a better use of their position.

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<sup>6</sup> Geoffrey Jones and Christina Lubinski, “Managing Political Risk in Global Business: Beiersdorff, 1914–1990,” *Enterprise & Society* 13, no.1 (2012): 85–119.

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<sup>7</sup> Mariana Mazzucato, *The Entrepreneurial State: Debunking Public vs. Private Sector Myths* (London, 2015); Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge, U.K., 1990).

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<sup>9</sup> Mariana Mazzucato, *The Entrepreneurial State* (London, 2011), 48.

<sup>10</sup> Jones and Kirby, *Competitiveness and the State*, 16.

<sup>11</sup> Correlli Barnett, *The Lost Victory: British Dreams, British Realities, 1945–50* (London, 1995).

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<sup>20</sup> Timo Särkkä, “The British Paper Industry, 1800–2000,” in *The Evolution of Global Paper Industry 1800–2050* (Dordrecht, 2012), 183.

<sup>21</sup> Rollings, *British Business*, 106; Owen, *From Empire to Europe*, 157; Niklas Jensen-Eriksen, “A Stab in the Back? The British Government, the Paper Industry and the Nordic Threat, 1956–72,” *Contemporary British History* 22, no. 1 (2008): 1–21; Owen, *From Empire to Europe*, pg. 157

<sup>22</sup> John Taylor MP, 610 Parl. Deb. H.C. 1959, cols. 711–731; Jensen-Eriksen, “A Stab in the Back?,” 15.

<sup>23</sup> Särkkä, “British Paper Industry,” 184.

<sup>24</sup> Henri Niklas Jensen-Eriksen, “Market, Competitor or Battlefield? British Foreign Economic Policy, Finland and the Cold War, 1950–1970” (PhD diss., London School of Economics, 2004), 166.

<sup>25</sup> Earl Waldegrave, 213 Parl. Deb. H.L. (5th ser.) (1958–59) cols. 460–61.

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<sup>28</sup> *Gateway Magazine*, Scottish Pulp and Paper Mills Special Number, Autumn 1966, 1.

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<sup>46</sup> Note on Scottish Pulp and Paper Mills (A Division of Wiggins, Teape & Co. Ltd.), Annat Point, Corpach, Fort William, Location Section, SDD, 8 Aug. 1966, SEP4/448, NRS.

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- <sup>79</sup> Simon Wingfield Digby, MP, 675 Parl. Deb. H.C. 1963, cols. 1377 – 1436.
- <sup>80</sup> The EFTA agreement provided for an annual 10 percent reduction in duties until 1970, when all duties would be removed. In the event, it was 1966 when all duties were removed. See Hills, *Papermaking in Great Britain*, 188; 675 Parl. Deb. H.C. 1963, cols. 1377 – 1436.
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- <sup>96</sup> Särkkä, “British Paper Industry,” 183.
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<sup>102</sup> Owen, *From Empire to Europe*, 165.

<sup>103</sup> *Ibid.*, 171.

<sup>104</sup> Särkkä, "British Paper Industry," 184.

<sup>105</sup> Wiggins, Teape to Shareholders, 5 July 1963, FV71/12, TNA.

<sup>106</sup> *Gateway Magazine*, Scottish Pulp and Paper Mills Special Number, no. 23 (1965), 15.

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<sup>108</sup> Särkkä, "British Paper Industry," 184; Highlands and Islands Development Board, *Annual Report 1983* (Inverness, 1984), appendix 4, table 3.

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