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*The First Fateful Shot:
Port Phillip Bay, August 1914*

One Day Conference
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THE FIRST FATEFUL SHOT: PORT PHILLIP BAY, AUGUST 1914



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W L Baillieu, the Collins House group and the Trading with the Enemy Controversy of 1914-15.

Dr Peter Yule

Everyone in Victoria knows the Baillieu family. They know the family has been wealthy and powerful for a long time. They know our recent premier, and most know that the Myer family is closely related. But very few know how the family came to its prestigious position and there is as much myth as reality in the stories that are told about the family. And even less is generally known of the founder of the family fortune, about how he made his fortune, or, what I'll be talking about today, his strange role in the Trading with the Enemy controversy of 1914 and early 1915. .

The Baillieu family fortune was created by William Lawrence Baillieu, born in Queenscliff in 1859 and died in London in 1936. Five of his brothers worked closely with him in the family businesses, but all acknowledged WL as their leader.



W L Baillieu c.1904

The Baillieus were originally from what is now Belgium. Two brothers came to England in the 1790s to escape from the French revolutionary wars and settled in the west country, where they worked as dancing teachers. One of their sons, also a dancing teacher, lived in poverty in west Wales, where, in spite of his poverty, he had 16 children. One of them, James George Baillieu, became a sailor and sailed several times round the world before February 1853, when his ship sailed through the Port Phillip Heads with a load of immigrants heading for the goldfields. James and the captain did not see eye to eye on things, with the result that James was imprisoned in the anchor chain locker while the ship was in quarantine at Portsea.

Somehow he escaped and the family story – supported but not proven by the available evidence – is that he swam across the heads to Queenscliff. He soon found employment as an oarsman on the Health Officer's boat and, while at work one day, met a 14-year-old girl on another immigrant ship. A few months later they married (the marriage certificate says she was 21) and they settled in Queenscliff where they had 16 children, 14 of whom survived to adulthood. They lived in this house on the beach.



George worked as a rower on the Health Officers' boat. A volunteer with the local artillery - there is a photo of him in his uniform, but I can't find it.

It's always been a great mystery – how the Baillieus rose from humble circumstances to great wealth. There have been rumours involving, Jack Kerosino, the Ozone Hotel and Edward Latham.

Wealth might have begun with Latham but then built up by WLB

WL Baillieu, the founder and leader of the Collins House group was one of the most extraordinary figures in Australian business history. I could talk about him for a long time, but, briefly, he was born in 1859, the third of George and Emma's 16 children. Baillieu was tall, powerfully-built (he was a highly rated amateur boxer) and a natural leader from a young age. After leaving school at the age of 13, he made and lost a fortune in the Melbourne land boom and bust of the 1880s and 1890s, before building a new and lasting fortune. His second fortune came from real estate, debt collection, winding up insolvent estates, insurance and agency work of many types, stockbroking, share speculation, gold mining, brewing and

newspapers. He always worked closely with family and friends – with his brothers he ran the stockbroking firm of EL & C Baillieu and the real estate business of Baillieu Allard; with Theodore Fink and later Keith Murdoch, he built the Herald & Weekly Times into Australia's leading media business; with Montague Cohen he founded Carlton & United Breweries; he engineered the mergers that established Dunlop as Australia's leading tyre and rubber company; he bought and subdivided many large pastoral properties and was a major city developer; he ran Melbourne's largest electricity supply company – his energy and creativity were boundless, and his business acumen was unmatched in his generation.

Baillieu's chief lieutenant in the Collins House group was W S Robinson, another extraordinary character, whose life cries out for a biographer. He wrote an autobiography called *If I Remember Rightly*, but unfortunately he rarely did.

In 1905, Baillieu, W S Robinson and a group of friends, including future American president Herbert Hoover, took over several of the most productive mines – North Broken Hill and Broken Hill South – on the rich Broken Hill silver, lead and zinc field. They then set up the Zinc Corporation (one of the main ancestors of today's Rio Tinto) and Amalgamated Zinc to exploit the new technology of flotation to extract the zinc from Broken Hill's complex sulphide ores. After early setbacks, flotation proved highly successful and made the Broken Hill mines enormously profitable, providing the cash for investments in many new industries for over half a century.

However, in the decade before 1914 the mining companies had a major area of vulnerability. Although they were highly profitable producers of lead and zinc concentrates, they had no smelters or refineries and were totally reliant on a cartel of German metal traders for marketing their products. Germany dominated the world trade in base metals, particularly lead, zinc and copper, the three main products of the Collins House mining companies. Britain had only a very small capacity to process these metals, leaving the Australian companies with no option but to sell their products to the German traders for smelting and refining in Germany or German-owned plants in Belgium.

Before 1914 over 80 per cent of Australian silver-lead -zinc concentrates were shipped to Germany or to German owned smelters in Belgium, while for their part, the Germans received over 90 per cent of their concentrates from Australia.

Baillieu and his colleagues were uneasy at their dependence on the German metal traders and investigated building their own lead and zinc plants in Australia, but the sums did not add up and nothing came of their plans except for an abandoned, half-completed smelter at Wollongong.

The links the Collins House companies had with Germany were unusual in Australia before 1914, when the Australian economy was still structured around the colonial relationship with Britain – supplying primary products and receiving in return capital and manufactured goods. Few Australian businessmen would have had personal contacts with German businessmen and even fewer would have visited Germany. WL Baillieu and his colleagues were among a small number who worked constantly with German businessmen and WL had visited Germany at least twice.

The outbreak of war with Germany was catastrophic for the Broken Hill mining companies. They had dozens of ships at sea, heading for Germany, Belgium or Holland loaded with silver, lead and zinc concentrates. Some could be turned back, or re-routed to British or neutral ports, but some unloaded their cargoes at Rotterdam for shipment to Germany well after the war had begun. But the Collins House companies received no payments for these shipments and their cash flow dried up almost completely within a few days of the outbreak of war.

Suddenly, with the outbreak of war, their best customers were their enemies, their concentrates unsaleable and their cash flows negative. In order to avoid mass unemployment, Baillieu decided that the mines should be kept working on a half-time basis. While this saved Broken Hill from catastrophe, it meant that massive amounts of lead and zinc concentrates soon began to pile up at Broken Hill and Port Pirie.

Britain needed lead and zinc for munitions, but lacked the smelting and refining capacity to treat Australian concentrates. As a result the British were forced to buy refined metals, primarily from the United States, at highly inflated prices, while unrefined concentrates were stock piled in Australia.

The mining companies tried hard to find new markets, but faced great difficulties. They had no experience in marketing their products except through the Germans. While contracts with enemy companies were suspended on the outbreak of war, there was great uncertainty as to whether they could legally be cancelled, which made it problematic to enter into new

contracts. The drying up of their cash flows, together with the general belief that the war would be short, made building their own smelters and refineries a highly risky proposition. Further, the influence of the Germans was still strong, particularly in neutral countries such as the United States, so a sale to America could turn out to be a sale to Germany. The seemingly innocuous American Metals Company, for example, was a wholly-German owned company.

The consequence was that the mighty Collins House mining companies, together with their head W L Baillieu, seemed to have the choice between financial ruin or trying to sell their products surreptitiously to Germany – perhaps via Denmark, Holland or Sweden – in other words ‘Trading with the Enemy’.

At this stage a new actor enters our story – initially as an enemy of Baillieu, but later as one of his greatest friends.

The federal election of September 1914 saw the election of a Labor government, with Andrew Fisher as Prime Minister. The real driving force of the government, however, was Billy Hughes, the fiery and eloquent Attorney-General. As Attorney-General, Hughes had responsibility for the drafting and enforcement of the *War Precautions Act* and the *Trading with the Enemy Act* which gave the government extraordinary powers over all aspects of Australia’s society and economy. Although from the left of politics, Hughes was totally committed to winning the war and also to building up closer economic ties within the British Empire – in spite of modern mythology, support for the empire was not found solely among conservatives. He began a crusade to destroy German economic influence, not just for the duration of the war, but into the distant future, and not just in Australia, but around the world. On taking office Hughes immediately made the restructuring of the base metals industry one of his main priorities as he correctly saw that this was the area of greatest enemy influence within the Australian economy.

Hughes began his campaign against what he called the ‘German octopus’ with a dramatic gesture. Early in the morning of Sunday 8th November 1914 the head offices of the leading mining companies at Collins House were raided by soldiers with fixed bayonets. The offices were searched, safes opened and truck loads of documents removed for examination – looking for evidence of trading with the enemy.

Baillieu, Robinson and their colleagues were outraged at Hughes’ action and loudly proclaimed their loyalty. However, at this stage they didn’t understand Hughes’ motivation.

He didn't really expect to find that major public companies were openly trading with Germany, but he was determined to make them realise that the old order would never be restored. He saw that, unless new smelters and refineries were built in Australia or Britain and new marketing arrangements set up, the companies would have no alternative but to revert to their old relationship with the Germans when the war was over. Their contracts with the Germans had only been suspended on the outbreak of war, and both the Germans and the mining companies expected that they would be resumed when the war finished – whoever won.

However, in May 1915 parliament passed the *Enemy Contracts Annulment Act* to both legalise and compel the termination of contracts with German firms.

For many months after the raid on Collins House, there was a bitter feud between Billy Hughes on the one side and Baillieu and Robinson on the other. However, Baillieu was a peacemaker, who always preferred negotiation to confrontation, and he realised that the Collins House companies could not win their fight with Hughes. Over the winter of 1915 Baillieu and Robinson stopped abusing Hughes and, after several tense meetings, came to a surprising meeting of minds with him and they began to work together. Baillieu and Robinson came to see that Hughes' program offered enormous opportunities to the Collins House group. If they sided with him, he could help them replace German control of the base metals industry with Australian control directed from Collins House, as well as building their own downstream smelting, refining and manufacturing operations in Australia.

By the end of 1915 Baillieu, Robinson and Hughes were working closely together to restructure the industry, sell Australian minerals and develop Australian processing. They were helped by a rapid change in the underlying economic position of the mining companies. Whereas in 1914 they faced the problem of the loss of their markets and the collapse of their cash flows, by the middle of 1915 the position had changed as the war began to generate an enormous demand for metals. After losing money for the first nine months of the war, the mines rapidly became highly profitable, giving the companies cash and confidence to invest in downstream processing.

In April 1915 the Collins House mining companies bought a controlling interest in BHP's lead smelter at Port Pirie. Under BHP's management, the smelter had become run-down and inefficient, but the new owners quickly turned it around, so that by the end of the war it was one of the largest and most efficient lead smelters in the world. From the middle of 1915 the

British Ministry of Munitions became virtually the only customer for Australian lead, buying up to ninety per cent of production at prices well above pre-war market rates.

In addition to the silver-lead-zinc mines of Broken Hill, the Collins House group included some significant copper producers, and from 1913 the group owned a one-third interest in Electrolytic Refining & Smelting's copper refinery at Port Kembla. However, the copper industry had an even higher level of German influence than lead or zinc, with one of the leading metal traders, Aron Hirsch, handling virtually all copper sales and also having a large shareholding in the refinery. Electrolytic Refining & Smelting's board, and particularly its chairman R G Casey (father of the Australian politician and Governor-General) had always worked closely with the Germans and when war came were reluctant to take harsh actions against their colleagues. The contracts with Aron Hirsch for selling copper were not cancelled until well into 1915 and then a new contract was made with Francis Snow, who had been Hirsch's agent in Australia for many years. Not surprisingly, this was viewed with great suspicion by Billy Hughes and soon after the new contract was signed, Snow was prosecuted for trading with the enemy.

When Aron Hirsch was finally forced to sell its shares, most were bought by Collins House companies, giving the group effective control of the refinery. Control of Australia's largest copper refinery gave the group a base to move from mining and processing to manufacturing. Before the First World War virtually no copper products were made in Australia and Hughes, Baillieu and Robinson all saw an opportunity to establish a new industry shielded from competition by the war.

In March 1916 a new company, Metal Manufactures, was set up, owned by a consortium of Collins House companies. With the aid of guaranteed government contracts and high levels of tariff protection, Metal Manufactures expanded rapidly to become one of the largest manufacturing companies in Australia, supplying almost the entire Australian demand for copper wire and tubes and many other copper, bronze and brass products.

So, by early 1916, the problems with lead and copper had been largely resolved. Zinc, however, remained an enormous problem. The stockpiles at Broken Hill and Port Pirie were still growing and, beyond a few sales to the Americans, it seemed that little could be done. Zinc distillation plants in Britain and Australia could only process a tiny proportion of

Broken Hill's production and vast quantities of zinc concentrates built up, in spite of the efforts to find new markets.

Hughes believed that the Collins House companies should build a zinc smelter in Australia, but, as Baillieu wrote to him in July 1915 'To erect large Smelters in Australia at the present time would only result in severe financial loss.'

Two developments radically changed this situation – one technological, the other political. The first was the successful refining of zinc by electrolysis by two American companies. Herbert Gepp, the manager of one of the treatment plants at Broken Hill, was in America at the time and he quickly realised the significance of the breakthrough. The electrolytic process was simpler, cheaper and less physically demanding on the labour force than the existing distillation process. Baillieu immediately authorised Gepp to take an option on the new process and to carry out further research.

Production of zinc by electrolysis would require a supply of cheap electricity. Electricity costs in mainland Australia were very high, but a large hydro-electric scheme was on the verge of completion in Tasmania and this promised much cheaper power. Consequently, in April 1916 Baillieu reached an agreement to buy a large amount of very cheap electricity from the Tasmanian government and to lease land at Risdon Point near Hobart for a zinc works.

At the same time, in the first half of 1916, Billy Hughes was in England for an Imperial Conference, accompanied by WS Robinson as his official advisor on the problems of the base metal industry. After much belligerent threatening by Hughes and patient negotiating by Robinson, the British government was persuaded to support the establishment of the zinc works at Risdon as well as a new zinc works in Britain. Further, the British agreed to buy virtually all Australia's existing stocks and future production of zinc concentrates, up to 30 June 1930, with the existing high wartime prices to apply for the duration of the contract.

The extraordinarily generous contract with the British Government was crucial for the success of the Electrolytic Zinc works at Risdon. Without this contract the refinery would almost certainly not have been built, and if it had, it would not have survived the recession of the early 1920s, let alone the depression of the 1930s. The investment in the zinc plant at Risdon matched that of BHP's steel works at Newcastle, built several years before. Yet the steel works are long gone, while the zinc plant is still operating profitably.

The decision by the Collins House leaders to work with rather than against Billy Hughes, had far-reaching consequences. From a political point of view it probably played a far greater part in Hughes' decision to break with the Labor Party and head a conservative coalition than has generally been recognised. For the Collins House companies it proved a brilliant move that saw them emerge from the war far stronger than they had been in 1914. When the war began, the group was a loose alliance built around the business interests of W L Baillieu and the mining companies at the core of the group were totally dependent on the German metal traders' cartel for the sale of their production. By November 1918 the Collins House companies controlled production and marketing through cartels of their own, carried out an ever-increasing proportion of their own refining and smelting and had made their first steps into manufacturing. Further, high war-time prices for metals made the last three years of the war extremely profitable for the mining companies so the group was flush with cash.

Between the two world wars, the Collins House group used the vast wealth extracted from the mines of Broken Hill to initiate a range of new industries unparalleled in Australian history. As one historian says, the Collins House group was 'the most prolific parent of industrial enterprises Australia has ever seen'. Many of the new ventures were logical extensions of mining and metals processing, notably the purchase and expansion of the lead smelters at Port Pirie, the building of the zinc works at Risdon, manufacture of sulphuric acid from sulphide ores, fertilizers from sulphuric acid, white lead and paint from Broken Hill lead, and copper and bronze products from copper refined at Port Kembla. Others were more remote such as the establishment of the pulp and paper industry at Burnie in Tasmania, investment in the Queensland cotton industry and Fijian sugar and, in the late 1930s, the formation of the Commonwealth Aircraft Corporation.

Given the way the war started for Baillieu and the Collins House group, it was a remarkable turnaround – through a mixture of luck and good management – to emerge as Australia's dominant industrial conglomerate, a position it held for the next 40 years.