EVIDENCE

July 5, 1956.
11.00 A.M.

The CHAIRMAN: We have a quorum, gentlemen. We were examining the Auditor General's report and we got to paragraph 36, in which he drew attention to the fact that there was a difference in the price between guns manufactured for the United States navy, and guns manufactured for the Canadian navy. Mr. Sellar was unable to answer all the questions that were asked of him at that time.

On page 64 of the printed report of the proceedings of our committee I said the following to Mr. Harkness: "I gave that undertaking before, Mr. Harkness, that if it was the desire of the committee, at the suggestion of any member of the committee, to assign people from the department to go into a transaction in detail, that it would be done." So to carry out that undertaking I have here this morning Mr. Golden, the Deputy Minister of the Department of Defence Production, and Mr. G. W. Hunter, the assistant deputy minister of the same department, and Mr. J. M. Dymond, the director of the gun branch.

Mr. Golden has a statement to make to the committee. After he has made this statement he will be at the disposal of the members of the committee to answer any questions.

Mr. D. A. Golden, Deputy Minister, Department of Defence Production, called:

The reference by the Auditor General in item No. 36 of his report to a difference of some $112,000 each in the cost of the 3"/50 twin mount A/A guns to the U.S. and Canadian governments was based upon the best estimates available at the time of his examination. A more recent estimate, which is very close to actual costs, shows the difference to be $102,450. This contract was carried out by Sorel Industries Limited of Sorel, P.Q.

Apart from minor extras for special type fire control required by the Canadian navy, duties and taxes included in the Canadian but not the U.S. cost, and the cost of certain parts furnished on a "free issue" basis by the U.S. government but for which the Canadian contract was naturally chargeable, the difference in price is accounted for mainly by three classes of expenditure which were considered to apply to Canadian account only, inasmuch as they relate to the re-establishment of Canada's only facility for the production of heavy guns which were urgently required by the Services at the outbreak of the Korean war.

The first of these items is preproduction and learning expenses, which totalled $1,525,428, or $33,158 per mount produced for Canadian account. This amount represented general overhead costs of the first year's operations in excess of the amount of overhead which could be properly absorbed in the relatively small volume of production during that period, bearing in mind that the plant had to be reactivated and staffed from a virtual shutdown condition. Included in this amount are the costs of recruiting and training some 4,000 employes, many of whom had had no previous experience in this type of work since, due to the rapid expansion in the defence industry in the Montreal area during the same period, it was necessary to draw heavily upon the population