

Hon. Mr. KING: The scheme may be that the manufacturer in the free zone would have an advantage over the man who imports finished articles.

Hon. Mr. DUFF: He would not have any advantage.

Hon. Mr. MURDOCK: He would, because his raw materials would come in absolutely free, and he would have no duty to pay until he determined what he was going to do with them.

Hon. Mr. DUFF: We have a concrete example now with regard to raw sugar. It is imported into Montreal and is placed in what is practically a bonded warehouse. When the refined sugar comes out of there, if it is sold in Newfoundland or St. Pierre the duty payable is only one per cent on the value of the raw sugar—that is, there is a drawback of 99 per cent; but if it is sold in Canada the full duty on the value of the raw sugar is payable. The same thing would apply as to goods coming out of the free zone.

Hon. Mr. MURDOCK: You see, there would be no bonded warehouses in the free zone.

Hon. Mr. DUFF: Yes. A free zone is a big bonded warehouse.

Hon. Mr. MURDOCK: But there is no check-up for duty purposes on goods or raw materials coming into the free zone.

Hon. Mr. DUFF: Oh, yes, there is.

The CHAIRMAN: Oh, yes. Books must be kept showing everything that is received there and customs officers have the right to inspect everything daily.

Hon. Mr. BEAUBIEN: They would have control.

Hon. Mr. DUFF: In addition, the customs would keep a record of all goods going into the free zone, so that manufacturers in the free zone could not—I would not say cheat, but they could not avoid paying the proper customs duty. As a matter of business there would be a record kept of all goods coming in and going out.

Hon. Mr. BEAUBIEN: Suppose that at a free zone a manufacturer produced certain goods for which his sale price was \$10,000, made up as follows: foreign raw materials \$4,000, Canadian labour \$4,000, and profit \$2,000. If the finished goods were sold in Canada he would have to pay duty on only the value of the raw materials, \$4,000. But if the same goods were produced outside of Canada and imported in a finished state, duty would be payable on the full value, that is the value of raw materials, labour and the amount of profit?

Mr. LENNIE: Yes.

Hon. Mr. BEAUBIEN: I understood your testimony to amount to this, that because of the special impediments or obstacles which you have mentioned free zones might not be as useful in Canada as in the United States. Have you anything further to say on behalf of your Department in connection with this Bill?

Mr. LENNIE: That is all I have to say. I was sent here, because, as I understand it, the Committee requested that somebody should come to answer questions. That is all I think we undertook to do.

Hon. Mr. DUFF: If large quantities of foreign goods were brought into a free zone and manufactured, in the manner suggested by Senator Beaubien, you would collect less in customs revenue?

Hon. Mr. BEAUBIEN: The Department would collect less revenue.

The CHAIRMAN: That is immediately.

Hon. Mr. BEAUBIEN: But Canadian material and labour would benefit.

Hon. Mr. DUFF: That is the thing.

Hon. Mr. BEAUBIEN: And what is the basic principle of customs duties? Is it not the protection of Canadian labour and Canadian materials?