

taxable. In this case, because there is corporate ownership, the tax would be approximately 50 per cent. So the rule about the sale of a capital asset does not apply completely in the case of the sale of a capital asset which is a depreciable asset.

Hon. Mr. Lambert: May I interrupt for a moment? I take it that the point the honourable senator made was that the principle which was applicable to war assets applied not only to ships but to everything else during the war. In other words, wartime depreciation was allowable annually on a foundry, or a garage that was turned into a foundry, as well as on ships. After the war, if there were a transaction in connection with such an industry, then the measuring rod of depreciation was adjusted. In other words, the proprietor had credit for his depreciation during wartime years, but after that if he proposed to enter another field of enterprise with his plant he had to pay back whatever had been advanced to him by the Government. I understand the same principle applies to ships.

Hon. Mr. Connolly (Ottawa West): In answer to the honourable senior senator from Ottawa, I think I can say that generally the policy was to allow special depreciation during war time for assets that would be depreciated during the wartime period, and that the special rates which were allowed at that time were altogether different from the rates which would normally apply in peacetime. There is a recognition of that here, too, I think. The normal depreciation rate on an ocean-going ship is 15 per cent on a reducing balance. The special rate allowed here, because of the special circumstances under which this industry operates, is 33½ per cent.

Hon. Mr. Lambert: Would it be possible for a man to advance \$100,000 and, by arranging for the payment out of \$700,000 from the escrow fund, build a ship which in fact is worth \$1 million?

Hon. Mr. Connolly (Ottawa West): I doubt that, because in the example given, while he has put up \$100,000 and is going to get the benefit of \$300,000 tax credit, he must find the other \$700,000 to complete the payments for his ship. What he does not have to do is to pay out the \$700,000 at the beginning of the transaction. I think that is the only advantage that comes from it.

Honourable senators, the other change I think noteworthy, and which perhaps should be referred to, is that under the present act the tax benefit is only available to an owner if all the ships in a given class are replaced. Under the amendment, and using the same

example, what is proposed is that he gets these tax benefits as each individual ship is replaced.

Those are the main changes made in the Canadian Vessel Construction Assistance Act.

If I had a general conclusion to draw with reference to this general problem, I would say that in a country like ours, which is dependent upon more and greater markets abroad, we have to ensure that adequate transportation facilities should be available during peacetime. In the face of world competition—and that is what the shipping industry is faced with—and in the face of foreign currency devaluation, as well as of our own high living standards, particularly labour costs, the economics of operating a Canadian merchant service in this country are definitely all against us. But I do not think that should necessarily lead us to the conclusion that we should scrap the whole merchant service. We are constructing, for instance, in the valley of the St. Lawrence, a great seaway which has been described as the eighth sea of the world. Perhaps there will be maritime opportunities for Canada in the future which we cannot yet assess. It may be that the merchant service will play a very important part in that future.

But in wartime I think the situation is altogether different. We are concerned, as the honourable senator from Winnipeg (Hon. Mr. Wall) said earlier, about new weapons, the progress of Russian research, and the question of the adequacy of our own defence, not only in the Commonwealth, but in NATO and in the west generally. I know this is not the time to discuss ballistic missiles which apparently can be shot from one continent to another, nor is it the time to discuss the value of conventional arms, or the usefulness of conventional armed forces. We have to be very quiet and very reasoned in our approach to that kind of problem. Some time perhaps this chamber could discuss the Canadian Navy—perhaps all of the Canadian armed services—in the light of new developments. That is something that we might usefully do. In the meantime, I submit it is realistic to think that either in a limited emergency, or even in a worldwide emergency, the transportation of wartime supplies and of civilian supplies will always be necessary for a country like Canada. For that, ships are needed.

Hon. Mr. Lambert: May I ask the honourable senator a question to clear up one point? I assume the Canadian Maritime Commission has nothing to do with the building of naval ships now?