

On section 6—Ministerial powers and duties.

Mr. STIRLING: Would the minister give us a statement with regard to this important section describing how he proposes to merge Munitions and Supply into Reconstruction in order to effect a smooth-working organization.

Mr. HOWE: This section embodies the general transfer to the minister of the powers and duties of the Minister of Munitions and Supply and the Minister of Reconstruction and Supply. I have a chart of the new department which could be gone into in detail. The merger is not at all difficult, because many of the functions are common functions, for example, the legal department, the service department generally and the deputy minister's department. The production departments of Munitions and Supply have been liquidated pretty well and merged into the purchasing department. The purchasing department will become one branch in the new department. It will still purchase the requirements of the armed services and certain material for other governments, but it will purchase as a purchasing department rather than as a series of production departments.

The controller's branch is closely associated with Reconstruction although still in Munitions and Supply. It will still be necessary to keep a few controls, such as lumber, metals as they affect atomic energy, rubber for a time and construction for a time; all having to do, not with war at the present time but with reconstruction. The transfer of these branches into Reconstruction will be a natural step.

The liquidation of accounts and contracts, which is the big job in the Department of Munitions and Supply at the moment, will work in naturally with Reconstruction, as will the renegotiation section which is also very active in connection with the liquidation of obligations of the Department of Munitions and Supply. It seems to me that the change over obviously brings the branches from Munitions and Supply, which in effect is an obsolete title, into the field of reconstruction which is of paramount interest at the present time. It will allow the orderly liquidation of war activities and will, I hope, enable the new department to give some help to reconstructing Canada's peace-time activities and to reconstructing our civil economy.

Mr. STIRLING: The minister has been referring, both last evening and this evening, to the renegotiation of contracts, and I wish he would elaborate on that a little. The contracts let by the Department of Munitions and Supply have to a large extent come to an

[Mr. Howe.]

end, as he has said himself. In what sense are contracts being renegotiated at this stage? I can understand the liquidation of contracts owing to production cut-off, but what is the purpose of renegotiating those that are still on hand?

Mr. HOWE: The department had certain purchasing practices. If a new type of production were required, the practice in many cases was to fix a target price; that is, to allow the contractor to make a certain number of units and then make a firm price contract based on those units with a renegotiation clause. Usually those contracts called for a ceiling price of perhaps three, four or five per cent of cost. Then there were lump-sum contracts based on yearly production. Before these contracts can be settled it is necessary to audit the accounts over the years and to renegotiate the price according to what is indicated.

Mr. STIRLING: They are continuing contracts?

Mr. HOWE: No; contracts that have been cancelled, but before final settlement can be arrived at a very large proportion of our contracts require over-all audit and renegotiation to bring about a fair and reasonable price. The negotiation of direct contracts with the department is not difficult, but in addition to the direct contracts there were many thousands of sub-contracts. The main contractor would contract with other contractors to manufacture his component parts. We have found over the years that, whereas we could keep close control of the main contract, we did not have the same control of the sub-contracts. There have been cases where sub-contractors have made inordinate profits, and it is the practice of the department to examine these sub-contracts and, if the profit is found to have been excessive, we bring the contract price down to allow of a reasonable profit and adjust it accordingly. That is the main work of renegotiation to-day. I made a statement last evening on the number of contracts renegotiated to date, and the figure standing in my mind is that there has been a recovery of \$300 million to the crown.

Mr. STIRLING: And a thousand contracts yet to come?

Mr. HOWE: Yes. The main contracts have been renegotiated and the recovery in the future will not be as great, but there is a still substantial sum to be recovered from profits which we regard as excessive, namely from sub-contractors.

Mr. STIRLING: That applies to contracts which have been terminated?