

The Address—Mr. Balcom

fore than were thoughts of war. I had hoped that the similarity in the opening dates might have had a parallel in an announcement at the opening of this session regarding the Canadian merchant navy; a statement that the government was going to take action to keep a merchant shipping nucleus under direct Canadian control so that it could be in our hands in the event of an emergency. Spokesmen for the government have stated in the past that a merchant fleet was considered an essential. When the Canadian maritime commission was set up in 1947, it was to provide a means of assisting and encouraging our shipping and shipbuilding industry to maintain themselves in a healthy and efficient state. For a trading nation like Canada, there could surely be little doubt of the economic importance of merchant shipping. Even more important, in defence the merchant marine is in fact an arm of the navy.

Some action has been taken towards the maintenance of a Canadian merchant fleet. When the war ended and the merchant ships were sold to private concerns, the so-called flag covenant was made a condition of sale. Ships purchased from the government under these conditions had to continue to be operated under the Canadian flag. How effective has this policy been? The figures speak for themselves. In 1947, there were 215 ships operating under the Canadian flag. On June 30 of this year, there were 39.

Why has this come about? In the past few years the high cost of operating Canadian merchant ships has made it virtually impossible to compete with foreign vessels. Currency and import controls have added to the problem of high costs. Because Canadian flag ships must obtain most of their revenue in a convertible currency, the area in which business may be sought has been limited. The shipowners association estimated that the cost of operating a Canadian flag ship is \$100,000 more than for a United Kingdom vessel of the same type. The main factor in this additional cost is wages. This figure does not include depreciation or a return on capital investment. Add to this the requirement that when replacements were made the owner was required to build a completely new vessel in a Canadian shipyard.

The costs of shipbuilding in Canadian yards are estimated to be at least 40 per cent higher than those in the United Kingdom or European yards. The government has recognized the handicaps of operating costs by permitting the transfer to United Kingdom registry of the bulk of the merchant fleet. The replacement policy permits the owner to dispose of Canadian flag ships provided the proceeds are used for an ocean-going dry cargo ship. Under

the new policy replacements need not be built in Canadian shipyards. This puts Canadian ship owners on an even footing with foreign competition as to capital costs. But what of the operating handicap of \$100,000? Is it fair to require the owners to operate ships under the Canadian flag without offering any compensation for the attendant handicap?

I know there are very sound reasons against increasing the protection of industries, either by tariffs or by subsidies. Canada has a very large stake in both the spirit and the letter of the general agreement on tariffs and trade, to which this country is a signatory. Yet, the government has already indicated that the shipping business is in a special category by imposing the flag covenant. If it is in the national interest to maintain the nucleus of a merchant marine, then it is the responsibility of the taxpayers of Canada to meet the cost. Either the ship owners should be allowed to operate in a free market or they should be paid a subsidy equal to the additional cost of operating a Canadian merchant ship.

My own view is that Canada should have the nucleus of a merchant marine. We would then have a basis for expansion in case of emergency. There would be at least a nucleus of trained personnel and management upon which to build if the need arose. A subsidy of \$5 million annually would keep 50 Canadian ships operating. It would be an inexpensive way to ensure the continuance of a small Canadian merchant fleet as a complement to the navy, which is part of our defensive armoury, and the expense should be treated as such. In terms of the cost of the Royal Canadian Navy, this is a minor item. However, one hardly makes sense without the other. In terms of the total volume of world shipping, it is not a major cost factor.

I am in sympathy with the government's unwillingness to limit the capacity of other countries to earn dollars, yet this is not an ordinary commodity for the reasons referred to. The volume of trade affected would not seriously affect the earning capacity of foreign shipping companies. In the foregoing, reference was made to the high cost of ship construction in Canada. The wages in the transportation equipment industry are undoubtedly high. Just think what it would mean if the shipbuilding industry received a subsidy proportionate to the duty on automobiles imported from the United States, and is there any reason why they should not? The backbone of sea power is not the battleship or the aircraft carrier but the humble, peaceful merchant ship. Sink these merchant ships and our powerful battle fleets would