

Supply—Defence Production

the industrial facilities and production skills associated with this work.

In this connection, I should like to refer briefly to the contracts for the three-inch 50 calibre anti-aircraft guns to which reference was made in the report of the Auditor General for the last fiscal year. These contracts were carried out by Sorel Industries Limited in its gun plant at Sorel, Quebec, on behalf of the United States and Canadian governments, and the difference of some \$112,000 each in the cost to the two governments provides a good example of the heavy expense of re-establishing a facility to do this type of work.

Apart from minor extras for special equipment required by the Canadian navy, the difference in price was accounted for mainly by three items of expenditure which were considered to apply to Canadian account only, inasmuch as they related to the re-establishment of Canada's only facility for the production of heavy guns urgently required by the armed services at the outbreak of the Korean war. These were plant and staff house rehabilitation expenses totalling some \$908,000, or \$19,900 per gun; plant maintenance costs, covering partial compensation for the expense of retaining this highly specialized gun facility—which had little or no economic commercial use—during the period from 1945 to 1950, amounting to \$35,074 per mount; and the pre-production and learning expenses amounting to \$33,158 per gun. These figures represent general overhead costs of the first year's operations which could not properly be 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.

While it is true that the recorded price of guns for Canadian account exceeded the price to the United States government, it should be remembered that the payment of the foregoing costs has resulted in substantial benefits to all subsequent production contracts, including the 105 mm. and 155 mm. howitzers. A further advantage to Canada, which should not be overlooked, is that the United States order for 180 guns, contrasted with Canada's requirement of 46, absorbed approximately four-fifths of the fixed overhead charges relating to the program, and resulted in substantial cost reductions, by reason of increased efficiency over the greater production run, which were shared by both governments.

In summary, whereas, in 1951, we were faced with problems of growth and expansion in our defence production program, we are today encountering problems of maintenance and stabilization. Whereas, in the early years,

[Mr. Howe (Port Arthur).]

our task was one of developing sources of supply to meet the demand, we are now more concerned with directing the continuing demand to established supply sources in such a manner as to use our production resources most efficiently and to safeguard their future most effectively.

The Minister of Defence Production is also responsible for a number of crown corporations, most of which are closely related to the defence production program; therefore, some mention of their activities is in order.

Canadian Arsenals Limited, in the current year, will continue to supply ammunition, small arms, instrument, and radar equipment, under contract to the Department of Defence Production, in approximately the same dollar volume as in 1955-56. Ammunition production, covering a wide range of both small arms and larger calibre gun ammunition, will again account for the greater part of the deliveries.

This year will see the first deliveries of both drawn and spiral-wrapped steel cartridge cases. The defence chemical facilities are to be augmented to permit the production of propellants for rockets and mortars, and further improvements will be made in the facilities and technique employed in the filling program. The small arms weapons plant will this fall deliver the first production models of the new FN-C1 rifle, and production will continue thereafter at a rising rate. It might be pointed out that, in addition to its role of defence contractor, Canadian Arsenals Limited, as an agent of the crown, has certain responsibilities for the development and maintenance of government arsenals and the preservation of appropriate skills and techniques.

Expenditures by Defence Construction (1951) Limited during the year ending March 31, 1957, are expected to total in the neighbourhood of \$145 million. This is nearly 20 per cent higher than the expenditure figure for last year, largely as a result of the increased volume of work carried over from previous years, but it is well below the peak year of 1952-53. On the other hand, it is estimated that new contracts to be awarded during the year will decline by approximately 10 per cent to \$135 million. Work on the mid-Canada line will account for the largest single share of the total expenditure, with the Camp Gagetown program in second place. It is expected that the latter project will be substantially completed by the end of this fiscal year.

Two of the remaining crown corporations operating under direction of the Minister of Defence Production, the Canadian Commercial Corporation and Crown Assets Disposal Corporation, require no appropriation since