

*Vessel Construction Act***CANADIAN VESSEL CONSTRUCTION ASSISTANCE ACT**CONSTRUCTION AND CONVERSION OF VESSELS
—ACCELERATED DEPRECIATION

Hon. Lionel Chevrier (Minister of Transport) moved the second reading of Bill No. 216, to encourage the construction and conversion of vessels in Canada.

Mr. Drew: Is the minister explaining the bill?

Mr. Chevrier: If I may I should prefer to make the statement in committee of the whole.

Motion agreed to, bill read the second time, and the house went into committee thereon, Mr. Beaudoin in the chair.

On section 1—*Short title.*

Mr. Chevrier: The purpose of this bill is to give some measure of tax relief to those persons who build ships in Canada for operation under the Canadian flag.

In its second annual report, which has been recently tabled, the Canadian maritime commission has pointed out that the cost of construction of a ship in Great Britain is approximately twenty-five per cent less than the cost of construction of a similar ship in Canada. This represented comparative costs as of the 31st March of this year, and recent changes in monetary values have probably served to widen this gap materially. In any event it is safe to say that Canadian building costs are the second highest in the world; but owners who build in Canada have not the same benefits in regard to depreciation as those who build in countries which enjoy lower building costs.

The law as it stands at the moment allows a shipowner to write off by way of depreciation six per cent yearly of the cost of a new vessel against his profits. If there are no profits he still must write off three per cent.

It is well known that the shipping industry is a feast or famine business. It experiences fairly well defined cycles of reasonable prosperity and depression. There is not a uniform earning record, and for that reason the shipping industry does not generally represent an attractive investment. Moreover if a shipowner is compelled to take depreciation in loss years, he may lose the opportunity of fully amortizing his investment and therefore be under a disability when the time comes for him to secure fleet replacements.

The bill is designed to make shipping a more attractive investment and thus to encourage building in Canada. In brief, the bill permits a shipowner who builds or converts a vessel in Canada to write off his

[Mr. Fair.]

investment up to 33½ per cent per annum as quickly as earnings permit, and on the other hand he is not compelled to take depreciation in any year when he has experienced a loss.

Under such arrangement of flexible or accelerated depreciation the government does not suffer a tax loss. When the shipowner exhausts his depreciation he must pay taxes on the full amount of his profits without deduction. In other words he may use his discretion within the limits allowed by the bill to write off his capital investment. Under the particular conditions of the shipping industry I believe it is fair to permit capital write-off to be geared to cycles of fluctuating earnings.

A minor feature of the bill provides authority for establishing a reserve against quadrennial surveys. Under the Canada Shipping Act and under the rules of classification societies, shipowners face a regular and unavoidable expense in relation to special surveys every four years in the interest of the safety of the ship, its crew and cargo. This is another condition which is peculiar to the shipping industry, and therefore the bill envisages the setting up of reserves annually to meet such known and unavoidable liability.

The bill does not represent any new or radical departure in the principles of taxation as they affect shipping in other countries. On the contrary, it tends to bring Canadian legislation affecting shipping into line with that of other countries. The United Kingdom recently increased the first year's depreciation allowance from 20 per cent to 40 per cent. Sweden allows free depreciation, in the sense that the taxpayer may write off on his books any amount in his discretion up to 100 per cent. Denmark allows tax-free depreciation over a two-year period for amounts in excess of pre-war building costs. Many other countries have adopted varying methods in applying the principle.

One thing, however, which I should point out is that the benefits of the bill apply only to vessels built or converted in Canada. In view of the depressed state of the deep-sea shipping industry throughout the world, the demand for new building has fallen off, and I do not suggest that this bill will produce a large volume of building orders for Canadian yards immediately. I am, however, satisfied that it will give considerable encouragement to the building of some vessels, especially those required in the coastal and inland trades, where we are badly in need of new equipment. I believe that building of vessels encouraged by this legislation, together with such vessels as are required for government account, will enable us to