

Honourable senators might ask how much more expensive it is to operate a ship under the Canadian register than under the U.K. register. I am informed that the additional cost is about 50 per cent per annum; or expressed in dollars, it amounts to about \$100,000 per annum for each 10,000-tonner.

Hon. Mr. Euler: Is that because of labour costs?

Hon. Mr. Connolly (Ottawa West): Labour is one factor, perhaps the principal one.

May I say a word or two about the Commission. As honourable senators will remember, it was established in 1947. Its first Chairman was J. V. Clyne, who was later appointed to the Supreme Court of British Columbia. He was a well-recognized expert in the field of Maritime law.

Hon. Mr. Macdonald: Who appoints the commissioners?

Hon. Mr. Connolly (Ottawa West): The Government. The next Chairman was Mr. J. C. Lessard, who for a while was Deputy Minister of Transport and later retired from that post, and is now Vice-President of the St. Lawrence Seaway Authority. The third and present Chairman is Mr. L. C. Audette, Q.C., a member of the Montreal bar, who has had a very distinguished naval career. May I also mention Captain E. S. Brand, the Executive Director of the Commission. It was because of his work in the Canadian Naval Service during the war that I developed an interest in this field. Some years before the war Captain Brand retired from the Royal Navy and joined the Canadian Navy. He was head of the Trade Division, so called, and in that post it was his responsibility to see that a proper liaison was worked out between the merchant service and the naval ships engaged in the convoy system. To him I am especially indebted for my introduction to maritime matters when I was with the Navy Minister. He certainly knew his business; and he was one of the very fine staff officers available to the Canadian Navy during the last war.

In general, I think, it may be said that the shipbuilding industry and the shipping industry acknowledge the value to Canada and to the Canadian merchant service of the Maritime Commission.

Now, as to the bill. As honourable senators know, it is a fairly technical measure. It may almost be described as a method of granting income tax relief; and anything connected with income tax is bound to be a little too complicated for most of us, including myself.

The great benefit to the Canadian merchant service under the Canadian Vessel Construction Assistance Act is that, for new

ships built in Canadian yards, the depreciation rate is 33½ per cent per year, straight line. The other depreciation rate, the normal depreciation rate under the Income Tax Act, is 15 per cent on a diminishing balance. So it is of great advantage to have the provisions of the Canadian Vessel Construction Assistance Act available to encourage the replacement of old ships in Canadian yards.

As I understand this bill, the main difference between it and the measure introduced at the last session of Parliament, and which at that time had first reading, is that by the new amendment—which I think is a good one—it becomes possible for shipyards to build a ship on speculation, to build for inventory, to build for sale to a Canadian owner. If that is done, and none of the special depreciation is taken before the vessel is sold, the new Canadian owner gets full advantage of the depreciation provided by the Income Tax Act. I think that is a good thing.

The second difference between the bill introduced last session and this one arises out of provisions of the Income Tax Act with reference to the recapture of depreciation. The Income Tax Act provides that when a depreciable asset is sold, the excess of the selling price over the depreciated value becomes income which is taxable. In the case of a ship the tax is usually applied at the corporate rate because the ship is usually owned by a corporation.

Let me give an example to illustrate that. Let us say that the selling price of the ship in question is \$1 million and the ship has been depreciated under the depreciation rules in the Income Tax Act, to a value of \$400,000 at the time of sale. Thus the excess over the depreciated value at the time of sale becomes \$600,000. These are usually large companies whose corporate rate is 49 per cent; for practical purposes let us say 50 per cent. Fifty per cent of \$600,000 would be \$300,000.

Under the present act this tax must be paid in the year in which the sale is made. If within a period of seven years after the sale, the ship is replaced by a ship built in a Canadian yard, the person who pays the \$300,000 tax is entitled to a refund. But he must apply for it. There is delay. The procedure is cumbersome; even though he escapes the tax.

Let me give another practical example, taking again the selling price of the ship at \$1 million. Let us suppose that the seller does not desire to replace his ship. Incidentally, this happens perhaps more frequently than cases where the seller does replace. The ship is sold abroad, let us say,