

## The Dominion Shipbuilding and Repair Co's Affairs.

Osler Wade, F.C.A., interim liquidator, has made the following report on the affairs of the Dominion Shipbuilding & Repair Co. Ltd., Toronto, which went into liquidation on July 31.

Upon taking possession of the assets, I found the company had been operating upon three ships under contract, one for the Gulf Navigation Co. Inc., and two for the Dominion Marine Department. In addition to this, there was a small contract recently commenced, for a yacht for Geo. H. Gooderham, of Toronto, and two stock hulls, nos. 12 and 13, upon which also only a small amount of work had been done.

The contract with the Gulf Navigation Co. contained a penalty clause, providing for \$1,000 a day upon default, and, on July 31, \$46,000 of penalties had accrued and been deducted from payments on account. To complete this contract would have involved a loss of at least \$60,000 to the ordinary creditors, apart from the question of further penalties, and to complete the contract with the Marine Department would have involved a loss of at least \$200,000 to the ordinary creditors. This loss would have been taken out of dividends due to the unsecured creditors, for the benefit of another class of creditors, and, of necessity, the work was abandoned by the liquidator. The cash received on account of the Gulf Navigation Co. was secured by a mortgage on its ship and the material delivered and allocated to it. The owner, under power given it in its contract, is now proceeding with the completion of its ship at its own expense and under an arrangement approved of by the court. The moneys received from the Marine Department were not secured by a mortgage, but under the statutes and orders in council, the government claims ownership of the two ships and the material delivered and allocated to them. The liquidator has intimated to the Marine Department his willingness to co-operate, so that any loss sustained by the government may be reduced to the minimum, either by the liquidator continuing the work on a cost plus basis, or by permitting the government to proceed itself, all, on the understanding that the ownership of the ships and materials delivered and allocated as of July 31 is to be determined by the court. The parties interested under these two contracts may have considerable claims against the estate for damages, and this is reflected in the statement of affairs.

It will be some time before inventories of stores and material on hand are completed, and of necessity the figures reflected in the statement of affairs are taken from the costing records, but may be considered as approximately correct. The same remarks apply to the tools. No depreciation has been written off the original cost of machinery, plant and equipment and the company has never paid any dividends.

Provided the Government shops are completed at the estimates given in the statement of affairs, the contracts will represent a profit to the insolvent company of \$182,000, being the difference between the monies received to date on account of same, and the charge for work done to July 31, plus the ranking liability of \$237,000. This profit of \$182,000 forms a part of the surplus in the statement of affairs.

Under a direction of the court, the liquidator attended at New York and

interviewed Christoffer Hannevig regarding the question of his indebtedness, and as to any suggestions, or proposals, from him, regarding a settlement with the creditors and the re-opening of the plant. Mr. Hannevig informed the liquidator that he had purchased all the share capital in the Pusey Jones Co., of Wilmington, Del., for \$6,000,000, which he paid in cash, and, that shortly afterwards the plant had been taken over by the United States Government; that during the interim he had not received any returns from the United States Government apart from advances of \$5,000,000 for enlargements to the works, etc.; and that the U.S. Shipping Board had awarded him \$2,000,000 as compensation over and above the \$5,000,000 previous advanced. The whole question of this transaction is now the subject of litigation in U.S. courts, the government claiming a set off on the award of about \$3,800,000. Mr. Hannevig claims to have considerable other interests, including sole ownership of Hannevig & Co., bankers, New York, N.Y., but that being tied up, he could do nothing regarding his account. Upon declaring his inability to attend this meeting and upon refusing to deliver up the monies on deposit in his bank, the court issued an order to commence proceedings for the recovery of the amounts. Mr. Hannevig stated that his reason for refusing to release the monies on deposit in his private bank was looking to the fact that he had guaranteed to the Equitable Trust Co. deliveries of steel, aggregating \$110,000, and was holding the amount on deposit as a set-off against the guarantee. This excuse is remarkable, for the reason that this guarantee was arranged for the purpose of reducing Mr. Hannevig's indebtedness to the company, and the liquidation of this guarantee to the trust company on steel deliveries would have represented a total reduction of over \$400,000 in his account since May 31 and left free for the purposes of the company the amount on deposit in his private bank.

In discussing an arrangement with creditors, Mr. Hannevig confined himself to reorganization on the basis of: (1) Canadian Government help for the erection of a dry dock to take care of the business on the Great Lakes. (2) Installation of paper making and pulp machinery to take care of the Canadian trade, covering which the Pusey Jones Co. held orders which he could turn over to Toronto, along with the necessary experts. (3) Discussed, as arguments in favor of reorganization, a large order to be placed by the French Government in Canada for building of some 60 ships, and orders to be placed by the Argentine Government. To these suggestions Mr. Hannevig had nothing to offer as support from his end, in the way of cash, not even the liquidation of his own account.

The immediate cause of this failure was insufficient liquid assets to retire the wage claims of some \$106,000, but there were three factors which contributed to the company's failure, and if the directors' meeting is to consider the appointment of a committee to enquire into the question of reorganization, the following factors are worthy of consideration: (1) Insufficient capital. (2) Labor and management. (3) Inability to collect amounts due.

The capital invested in this business was \$1,000,000, as compared with \$1,600,000 invested in fixed assets for the plant,

etc. It is quite obvious that, instead of having any working capital, the company has a liability to the extent of \$600,000, or that the working capital was \$600,000 less than nothing, making it necessary to rely upon loans and advance payments on contracts to conduct operations.

The labor and material costs per ton on hulls laid down to July 31 were as follows:—

	Labor.	Material.
1918 .....	\$40 a ton.	\$76 a ton.
1919 .....	49 a ton.	116 a ton.
1920 .....	61 a ton.	95 a ton.

and on the last hull in 1920 the labor cost \$73 a ton and material \$94 a ton, the net result being that the last hull was laid down at a loss of \$300, to which must be added penalties of \$72,000, increasing the loss to \$72,300.

The arrangements with labor at the time of closing down was for a 5-day week of 44 hours, with double time for Saturdays, and overtime. The management is to be congratulated for dropping ships in the water as rapidly as it did, but from the figures which are quoted it is quite apparent the policy of a closed shop has had its effect on labor costs, which were constantly increasing, while the cost of material has been decreasing since the peak last year. There may be considerable argument in favor of the closed shop theory, when conditions are universal, provided it is not in restraint of trade; but the shipbuilding industry, in so far as ocean traffic is concerned, is quite distinct from most other industrial enterprises, for the reason that ships built at one point upon the globe, compete for freight traffic with ships built at any other point on the globe, the competition being exclusively in the charges made for carrying freight. Of necessity, the capital expenditure on ships built in any one market must be on a basis to compete with the capital expenditure of ships built in any other market. Therefore, if the shipbuilding industry in Canada is to succeed, the capital outlay in construction must be on a competitive basis with the capital outlay in construction in any other markets, or failing in this, a government subsidy to equalize any differences. Shipbuilding labor appears to have overlooked this factor in Canada and the result is going to be that if the condition is not faced by labor and by management, the industry cannot succeed and compete with ships built at a lesser cost at other points. This factor, and a survey of the plant by competent experts, regarding the question of sufficiency, adaptability, etc., should be considered in any re-organization.

Without making any provision for immediate payment to the ordinary creditors, it would require at least \$500,000 or \$600,000 to carry out a reorganization, one-half to retire the secured and preferred claims, and the balance for working capital. If this cannot be realized from the accounts receivable, then it might be by an issue of debentures sufficient to retire these secured claims, and the balance might be raised by an issue of preferred shares. These shares could be preferred in any distribution of assets among shareholders, and issued to control management, provided the present shareholders were considered to the extent of their equities, after making proper depreciation on the plant and etc. The ordinary creditors, apart from the Marine Department, might make