By Mr. Applewhaite:

Q. I do not want to get into an argument across the table, but I do not think we should leave that statement on the record, surely. Supposing you had competition, and you were in a competitive business and you charged your whole plant up to the first order, and then you sell to competitors cheaper? —A. Mr. Applewhaite, an entirely different consideration prevails if we are going to talk about competitive tenders. I tried to indicate that nothing should be drawn here from this incident in relation to the more normal method of contracting, where an item is known, and a plant is in existence, and so on.

Q. Then I am right in saying that it is not the normal practice to charge such a large chunk of that type of expenditure against one order?—A. Oh, no. All I am saying is, to discuss this in relation to what would happen in competitive tender calling seems to me to be unrealistic.

By Mr. McGregor:

Q. Do I understand that this $3,772,000 was made for the purpose of the manufacturing of these guns?—A. No. There are three separate items. One is the cost of absorbing a very substantial preproduction and learning expenses. The second is the rehabilitation expenses, and the third is the standby maintenance payment for the standby maintenance of the plant for five years.

By Mr. Monteith:

Q. Could you give us a little more detail on that third one, Mr. Chairman, standby maintenance? You mentioned it I think earlier in your report. Would you mind reading your statement again, that portion of it with respect to the third item? Read it slower. I did not quite catch it all as you were reading it before.—A. "The third item of expenditure of a similar nature represented a portion of the settlement made with the contractor to compensate for the cost of maintaining this highly specialized facility (which had little or no economic commercial use) during the period from 1945 to 1950, which amounted to $1,338,436, or $35,074 per mount. This charge, relating as it did to a prior period, was not applicable to current production for U.S. account, but was apportioned over all Canadian contracts for the three-year period from 1951 to 1953 inclusive. In this way, the standby maintenance costs which, incidentally, were non-profit-bearing, were completely segregated from production costs and profit thereon, and permitted contractual negotiations with Sorel Industries Limited to be carried out on the same basis as other defence contractors who were not in this position."

Q. In other words your last sentence there was to the effect that you had entered into similar settlement with other defence contractors besides Sorel?—A. No, we have not entered into any such settlement, but we entered into this one with Sorel so that after this had been concluded, or agreed to, we could then discuss profit with them in the same way as we would normally discuss it with other defence contractors.

Q. If the Korea situation had never arisen would there have been any reason whatsoever to consider paying them $1,338,000-odd?—A. I would not thing so, no.

Q. In other words from 1945 to 1950 they were a private concern, and what happened to the company was primarily their consideration?—A. Correct.

Q. But the department felt called upon to reimburse them for some expenses entailed during that period in keeping their plant up, although there was no reason for them to expect further orders?—A. We were satisfied that one way or another this expenditure would have to be met, and we chose to make it in this form.