

of the immediate vicinity of Sorel who were largely unskilled in production techniques. In order to obtain the necessary complement of engineering and technical personnel to direct operations, it was necessary to go as far afield as the West Coast and the United Kingdom and to arrange for their transport to Sorel.

The second major item in the category of charges which were considered to relate exclusively to the establishment of a Canadian facility for heavy gun production was the cost of plant and staff house rehabilitation, totalling \$908,453, or \$19,879 per mount. This expenditure covered the cost of rehabilitation and rearrangement of plant and equipment in order to place them in an operating condition after a five-year period of idleness. This item also includes an amount of \$215,000 for the rehabilitation of staff houses, which had fallen into disrepair during the period, but which were most essential due to the grave housing shortage which existed in Sorel at that particular time.

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.

While it is true that the recorded price of guns for Canadian account exceeded the price to the U.S. navy, it should be remembered that the charging of standby maintenance, rehabilitation, and preliminary expenses to Canadian account will benefit all subsequent Canadian gun production carried out by this facility. A further advantage to Canada which should not be overlooked is that the U.S. order for 180 guns (contrasted with Canada's 46) absorbed approximately four-fifths of the fixed overhead charges relating to this contract, and resulted in substantial cost reductions by reason of increased efficiency over the greater production run, which were shared equally by both governments.

By Mr. Harkness:

Q. In his report, Mr. Sellar states, "In lieu of the first arrangement it offered \$45 million for the production of 180 guns, and this was accepted". What was the first arrangement?—A. I think the first arrangement was a price-to-be-negotiated basis, and the first order was for a number substantially less than the number of guns ultimately ordered by the United States.

Q. You say it was to be a negotiated basis. Was there no definite figure in this first arrangement?—A. There was a figure, yes, for estimating purposes, and for funding purposes, as I recall it.

Q. Have you got a copy of this first arrangement?—A. Yes, I am sure we have. The first document that I have here refers to 40 mounts, and it says it is estimated that the definitive contract will be in the amount of \$10 million.

Q. For 40 guns?—A. Yes.

Q. That is about \$6,000 more than the United States finally paid for the guns they did get?—A. Mr. Harkness, the amount included in the first document was the amount put in in order to get the work rolling, and to get contractual negotiations started, and to have something which would permit us to get Sorel going. I do not think the \$10 million at this stage was intended to be definitive in any way.