

if I did not say it, I meant to say that the Royal Canadian Navy had set up \$2,100,000 in their financial encumbrance when they sent the contract demand over.

*By Mr. Monteith:*

Q. The letter of intent did not definitely designate that?—A. No.

*By Mr. Applewhaite:*

Q. There were three major items referred to, the plant, the staff, and the house rehabilitation, which was something in the neighbourhood of \$900,000; was that whole amount charged to this one group of mounts of the order of 46?—A. Yes, it was all charged to the 46 Canadian mounts.

Q. The auditor general suggests that to an undetermined degree the subsequent production of mounts was beneficial.—A. Oh yes, without question.

Q. You agree to that?—A. Yes, without question.

Q. First of all, I would like to know roughly what was the subsequent amount of production on Canadian account; and consequently how did you justify the statement that the subsequent production benefited by this payment against the 46 guns?—A. There was something in the order or magnitude of \$30 million in other contracts there, and this expenditure of course would be substantially greater if these expenditures had not been absorbed by the 3"/50 gun contract.

The CHAIRMAN: If they had not been absorbed by that contract, they would have had to be absorbed in subsequent contracts placed by the government, and the government would still have had to pay.

The WITNESS: Not only these items, but also the question of absorbing the training of a very large number of unskilled men, and their overhead.

*By Mr. Applewhaite:*

Q. Are you saying in effect that a large amount of capital expenditure was charged to one particular order?—A. I am advised that there is some question about whether this should properly be referred to as capital. But it certainly is an expenditure which had to be made. If it were not charged against this contract it would have to be charged against some other contract.

Q. To use the words of another questioner, is that a normal practice?—A. I am having a great deal of difficulty, sir, in dealing with normalcy in this area where you are dealing with a mammoth plant which only has one reason for existence, and where you tried to take it, in a time of emergency, from the position of virtual shut down and create a modern gun plant out of it. From that point of view I am having a great deal of difficulty with normalcy.

Q. I will admit the emergency. I will tell you frankly what I have got in the back of my mind, and that is: how can we justify, in fairness to the navy, charging approximately \$3 million of over-all plant expenses against one navy order?—A. Because it was the only formal order in existence at that time, even though it was contemplated that at some later date other contracts would be placed there. But, it was the only formal order in existence in 1950.

*By Mr. Monteith:*

Q. You do that anyhow, do you not? You try to get rid of it?—A. I beg your pardon?

Q. Would it not be reasonable to get rid of that amount in the one order at that time? It was your only formal order?—A. It was, yes.