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Canada. Parl. H.of C. Special Comm.on War Expenditures, 1943/44.
Minutes of proceedings.

DATE	NAME - NOM

Canada. Parl. H.of C. Special Comm.on War Expenditures, 1943/44.

SESSION 1943-44

HOUSE OF COMMONS

SPECIAL COMMITTEE

ON

WAR EXPENDITURES

MINUTES OF PROCEEDINGS

JULY 19, 20, and 22, 1943
SEPTEMBER 13, 1943
OCTOBER 14 and 15, 1943
NOVEMBER 4 and 9, 1943
JANUARY 19, 20, 21, 22 and 25, 1944

Including

FIRST, SECOND, THIRD, FOURTH AND FIFTH REPORTS TO THE HOUSE

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1944

ORDERS OF REFERENCE

SATURDAY, 17th July, 1943.

Ordered,—That a Select Committee be appointed to examine the expenditure defrayed out of moneys provided by Parliament for the defence services, and for other services directly connected with the war, and to report what, if any, economies consistent with the execution of the policy decided by the government may be effected therein, and that notwithstanding Standing Order 65, the committee shall consist of twenty-four members, as follows: Messrs. Black (*Cumberland*), Blackmore, Boucher, Cleaver, Coldwell, Donnelly, Dupuis, Fauteux, Ferland, Gladstone, Golding, Graham, Hill, Homuth, Hurtubise, Jackman, Nixon, O'Neill, Picard, Pinard, Pottier, Reid, Sissons, Winkler, with power to send for persons, papers and records; to examine witnesses and to report from time to time to the House.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

TUESDAY, July 20, 1943.

The First Report of the Special Committee on War Expenditures, presented to the House Monday, July 19, 1943, was adopted by the House this day, and is as follows:—

Your Committee recommends that it be empowered:—

1. To sit while the House is sitting and notwithstanding any adjournment of the House, and to adjourn from place to place.

2. To determine the manner and extent to which the evidence, proceedings and reports shall be printed or typed, and that where the same are ordered to be printed there be printed 500 copies in English and 200 copies in French, and that standing Order 64 be suspended in relation thereto.

3. To appoint sub-committees, to fix the quorum of any such sub-committee, and to refer to such sub-committee any of the matters referred to the Committee; any sub-committee so appointed to have power to send for persons, papers and records and to examine witnesses under oath or otherwise, to sit while the House is sitting and notwithstanding any adjournment of the House, to adjourn from place to place, and to report from time to time to the Committee.

4. To employ such secretarial, reportorial, clerical and other assistance as it may deem necessary.

5. In cases where consideration of national security precludes the publishing of certain recommendations and of the arguments upon which they are based, to address a memorandum to the Prime Minister for the consideration of the War Cabinet, provided that the Committee shall, whenever it has exercised such powers, report the fact as soon as possible to the House.

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Your Committee further recommends that during any adjournment of the House its Reports shall be deemed to have been tabled when filed with the Clerk of the House and seven days have elapsed after the date of such filing.

Your Committee further recommends that six members constitute a quorum, and that Standing Order 65 (3) be suspended in relation thereto.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

FRIDAY, 23rd July, 1943.

Ordered,—That the name of Mr. McGregor be substituted for that of Mr. Boucher on the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

MINUTES OF PROCEEDINGS

MONDAY, July 19, 1943.

The Special Committee on War Expenditures met at 10.00 o'clock a.m.

Members present: Messrs. Black (*Cumberland*), Blackmore, Cleaver, Coldwell, Donnelly, Dupuis, Gladstone, Golding, Graham, Hill, Hurtubise, Jackman, O'Neill, Pinard, Pottier, Reid and Sissons—(17).

On motion of Mr. Golding, seconded by Mr. Reid, Mr. Cleaver was selected as Chairman.

Mr. Cleaver took the Chair and thanked the members for the honour conferred upon him.

The Chairman informed the Committee that the meeting had been called for organization purposes and he submitted a draft report requesting certain powers from the House, viz,—

Your Committee recommends that it be empowered:—

1. To sit while the House is sitting and notwithstanding any adjournment of the House, and to adjourn from place to place.
2. To determine the manner and extent to which the evidence, proceedings and reports shall be printed or typed, and that where the same are ordered to be printed there be printed 500 copies in English and 200 copies in French, and that Standing Order 64 be suspended in relation thereto.
3. To appoint subcommittees, to fix the quorum of any such subcommittee, and to refer to such subcommittees any of the matters referred to the Committee; any subcommittee so appointed to have power to send for persons, papers and records and to examine witnesses under oath or otherwise, to sit while the House is sitting and notwithstanding any adjournment of the House, to adjourn from place to place, and to report from time to time to the Committee.
4. To employ such secretarial, reportorial, clerical and other assistance as it may deem necessary.
5. In cases where consideration of national security precludes the publishing of certain recommendations and of the arguments upon which they are based, to address a memorandum to the Prime Minister for the consideration of the War Cabinet, provided that the Committee shall, whenever it has exercised such powers, report the fact as soon as possible to the House.

Your Committee further recommends that during any adjournment of the House its Reports shall be deemed to have been tabled when filed with the Clerk of the House and seven days have elapsed after the date of such filing.

Your Committee further recommends that six members constitute a quorum, and that Standing Order 65 (3) be suspended in relation thereto."

On motions of Mr. Sissons,—

Resolved,—That the draft report, as amended, be adopted.

Ordered,—That the First Report be presented to the House.

On motion of Mr. Pottier,—

Resolved,—That a subcommittee consisting of the Chairman and Messrs. Coldwell, Blackmore, Jackman, Graham, Pottier and Sissons be appointed to prepare an agenda and report from time to time to the Committee.

Other matters relating to the sittings of the Committee during the period of adjournment of the House were brought up and left over for further discussion at the next sitting.

The Committee adjourned until to-morrow, Tuesday, July 20, at 9.30 o'clock, a.m.

R. ARSENAULT,
Clerk of the Committee.

TUESDAY, July 20, 1943.

The Special Committee on War Expenditures met at 9.30 o'clock a.m., the Chairman, Mr. Cleaver, presiding.

Members present: Messrs. Black (*Cumberland*), Blackmore, Boucher, Cleaver, Donnelly, Dupuis, Fauteux, Gladstone, Golding, Graham, Hill, Hurtubise, Jackman, Pinard, Pottier, Reid, Sissons.

The minutes of the last meeting were read and approved.

The Committee proceeded to discuss organization in view of the sittings to be held during the adjournment of the House. It was agreed:

1. That the Committee be convened for Monday, September 6, 1943, with the understanding that sub-committees would not sit until September 13, and that the attendance of sub-committee Chairmen only be required before September 13.

2. That members' stenographers required during the adjournment of the House be allotted on the basis of one for the Chairman, one for each of the sub-committee Chairmen, one for each of the leaders of the C.C.F. and Social Credit parties, and one for every two remaining members of the Committee upon the recommendation of such members.

3. That instead of four copies of the evidence heard *in camera* being typed as in previous years, three additional copies be typed for the use of members of the Committee.

At 11.00 o'clock a.m. the Committee adjourned until 4.00 o'clock p.m., this day.

AFTERNOON SITTING

The Committee resumed at 4 o'clock, the Chairman, Mr. Cleaver, presiding.

Members present: Messrs. Black (*Cumberland*), Blackmore, Cleaver, Donnelly, Dupuis, Fauteux, Gladstone, Golding, Graham, Hill, Hurtubise, Jackman, Picard, Pinard, Pottier, Reid, Sissons.

Questions relating to organization of the Committee's sittings during adjournment were further considered.

On motion of Mr. Pottier,

Resolved,—That the Chairman and Messrs. Graham, Pottier, Sissons, Jackman, Blackmore and Coldwell, constitute a sub-committee to interview the Minister of Finance on the question of the members' expense allowance while sitting during the adjournment of the House, and report at the next sitting.

The Committee adjourned to the call of the Chair.

R. ARSENAULT,
Clerk of the Committee.

THURSDAY, July 22, 1943.

The Special Committee on War Expenditures met at 5.00 o'clock p.m., the Chairman, Mr. Cleaver, presiding.

Members present: Messrs. Black (*Cumberland*), Blackmore, Cleaver, Donnelly, Dupuis, Fauteux, Golding, Graham, Hurtubise, Jackman, Nixon, Picard, Pinard, Pottier, Sissons.

On behalf of the subcommittee on Agenda, the Chairman presented the following report:—

"The Agenda subcommittee of the Special Committee on War Expenditures recommends:—

1. That a subcommittee (No. 1) be appointed to inquire into the following:—

(*a*) R.C.A.F. services and aircraft production;
(*b*) Naval services and shipbuilding of all types;
(*c*) Contracts with civilian flying clubs, associations or companies;
(*d*) Airport, aerodrome and Air Force buildings construction, specifications and designs for such projects, and inspection thereof during construction.

That such subcommittee consist of Messrs. Pottier (Chairman), Black, Blackmore, Boucher, Ferland, Golding, Hill, Hurtubise, Pinard and Reid, and that the quorum be 3.

2. That a subcommittee (No. 2) be appointed to inquire into the following:—

(*a*) Army services;
(*b*) All types of army equipment;
(*c*) Medical, dental and hospitalization services in the Army, Navy, and Air Force;
(*d*) Food supplies for the forces, inspection thereof, catering and salvage of waste;
(*e*) Army and Navy buildings construction.

That such subcommittee consist of Messrs. Sissons (Chairman), Homuth, Picard, O'Neill, Dupuis, Nixon, and that the quorum be 3.

3. That a subcommittee (No. 3) be appointed to inquire into the following:—

(*a*) Government owned companies and all types of military equipment and supplies other than with respect to subjects alloted to subcommittees Nos. 1 and 2;

(*b*) Wartime Boards;

(*c*) Shipshaw development;

(*d*) Corporate taxation including special wartime accelerated depreciation.

That such subcommittee consist of Messrs. Graham (Chairman), Jackman, Coldwell, Donnelly, Gladstone, Fauteux, Winkler, and that the quorum be 3.

4. That the Chairman be ex-officio a member of all subcommittees above referred to."

On motion of Mr. Golding, the above report was adopted.

Some members having expressed the desire to have their names transferred from one subcommittee to another, the Chairman suggested that any such transfers could be considered when the Committee convenes after the adjournment of the House.

Mr. Graham, on behalf of the subcommittee appointed at the last sitting, reported that the subcommittee had interviewed the Minister of Finance as directed, and that the question of members' expenses while sitting during the adjournment of the House, had been adjusted.

The Committee adjourned until 10.00 o'clock a.m., Monday, September 13, 1943.

R. ARSENAULT,
Clerk of the Committee.

MONDAY, September 13, 1943.

The Special Committee on War Expenditures met at 11.00 o'clock a.m., the Chairman, Mr. Cleaver, presiding.

Members present: Messrs. Blackmore, Cleaver, Coldwell, Donnelly Dupuis, Fauteux, Ferland, Gladstone, Golding, Graham, Hill, Homuth, Hurtubise, Jackman, McGregor, Nixon, O'Neill, Pinard, Reid, Sissons.

The Chairman submitted a report of the Agenda sub-committee recommending that sub-committees 2 and 3 be merged under the chairmanship of Mr. Graham for the purpose of inquiring jointly into the Shipshaw development.

On motion of Mr. Sissons, the report of the Agenda sub-committee was adopted.

Mr. Reid suggested that all instances of waste in connection with Canada's war effort should be inquired into by this Committee, and moved that the press be asked to make known to the Canadian public that all such instances of waste should be brought to the attention of the Committee. Motion carried.

The Committee then proceeded to the selection of its personnel required during its sittings while the House is adjourned.

The Chairman submitted a list of stenographers selected in accordance with a resolution of the Committee adopted on July 20, and suggested that their services be retained at the rate of $5.00 per day for a five-day week.

Mr. McGregor moved that the stenographers be paid at the rate of $30.00 per week.

Mr. Jackman moved in amendment that the stenographers be paid at the rate of $25.00 per week.

The question being put on the amendment it was negatived.

Main motion carried.

On motion of Mr. Homuth, seconded by Mr. Reid, it was resolved that the following persons be employed as stenographers at the rate of $30.00 per week, namely:

Commencing on Tuesday, September 7, 1943, and until further notice: Ann Wolff, Louise A. Nash, Violet M. Jackson, Pauline Dechene;

Commencing on Monday, September 13, 1943, and until further notice: Agnes Anderson, Vera Barton, M. G. Beattie, Grace L. Bennett, Therese Brunelle, Paule Chaussé, Pauline Gravel, Gwen Hudson, Winnifred Linton, Lucienne Robert;

Commencing on Monday, September 20, 1943, and until further notice: Jean McIntosh.

On motion of Mr. Coldwell, seconded by Mr. Fauteux,

Resolved,—That commencing on Monday, September 13, 1943, and until further notice, the following persons be employed by the Committee, namely: R. Arsenault as Clerk of the Committee, and D. Butt, W. J. Clinton and R. A. Whitman as Committee Reporters, and that each of the said employees be remunerated for their services at the rate of $250.00 per month.

Mr. Golding moved: "That the sittings of sub-committees be *in camera,* except as the sub-committees may otherwise from time to time determine, and that seven copies only of the proceedings and evidence in sittings *in camera* be made in typed script, one for the Chairman of the whole Committee, one for the Chairman of the sub-committee, one for the Clerk of the Committee, one to be sent to the witness for correction and return, and three for the use of members of the Committee; all copies to be in charge of the Clerk of the Committee when not in use".

Mr. Coldwell moved in amendment thereto that the first twelve words, namely, "That the sittings of sub-committees be *in camera* except as the sub-committees" be deleted and the following substituted therefor: "That the sittings of the Committee or sub-committees be open to the public except as the Committee or sub-committees".

Following discussion, the Committee adjourned until 4.00 o'clock p.m., this day.

AFTERNOON SITTING

The Committee met again at 4.00 o'clock p.m.

Members present: Messrs. Black (*Cumberland*), Blackmore, Cleaver, Coldwell, Donnelly, Dupuis, Fauteux, Ferland, Gladstone, Golding, Graham, Hill, Homuth, Hurtubise, Jackman, Nixon, McGregor, O'Neill, Pinard, Picard, Reid, Sissons.

The Committee resumed consideration of Mr. Golding's motion and Mr. Coldwell's amendment thereto.

The question being put on the amendment, it was negatived.

Main motion carried.

The Chairman asked the Committee to revert to the selection of the personnel required by the Committee for its sittings during the adjournment of the House.

On motion of Mr. Homuth, seconded by Mr. Picard,

Resolved,—That commencing on Monday, September 13, 1943, and until further notice, the following persons be employed by the Committee as dictaphone operators, at the rate of $6.50 per day for a six-day week, namely: Cecile Sabourin, Marion Gardner and Ada Kellett.

The Chairman informed the members of the Committee that their attendance for the purpose of determining their expense allowance, would be recorded in the minutes of proceedings of the main Committee and of the sub-committees. With respect to the payment of expense allowance, he submitted the following rules which were discussed and approved, viz,—

"All Committee members will be paid full time from the date the Committee convenes until the date of final adjournment. Deductions will, however, be made for every day a member is absent from a meeting of the main Committee or of a sub-committee to which he is attached. Sundays will only be allowed to members who are actually in Ottawa on Sundays, and not to Ottawa or Carleton County members. A member who is absent from all Committee or sub-committee meetings for one week, will have a full week's allowance deducted".

The personnel of the three sub-committees appointed on July 22, was amended as follows:—

Mr. Dupuis transferred from sub-committee No. 2 to sub-committee No. 1;

Mr. Fauteux transferred from sub-committee No. 3 to sub-committee No. 2; Mr. Pinard transferred from sub-committee No. 1 to sub-committee No. 2; Mr. Picard transferred from sub-committee No. 2 to sub-committee No. 3.

The Committee adjourned to the call of the Chair.

R. ARSENAULT,
Clerk of the Committee.

THURSDAY, October 14, 1943.

The Special Committee on War Expenditures met at 10.30 o'clock a.m., the Chairman, Mr. Cleaver, presiding.

Members present: Messrs. Black (*Cumberland*), Blackmore, Cleaver, Coldwell, Donnelly, Fauteux, Ferland, Hill, Golding, Graham, Hurtubise, Jackman, McGregor, Nixon, O'Neill, Pinard, Reid, Sissons, Winkler.

The Chairman, on behalf of the Agenda Sub-committee, submitted the following recommendation:

"That a sub-committee (No. 4) be appointed to inquire into the present conditions relating to agricultural implements and repairs supply, and that such sub-committee consist of the following members: Messrs. Golding (Chairman), Blackmore, Coldwell, Donnelly, Jackman, Nixon, Picard."

Mr. Reid questioned the jurisdiction of the Committee to inquire into this matter and requested that he be so recorded in the minutes of proceedings.

On motion of Mr. Graham, the report of the agenda sub-committee was adopted.

The Chairman having asked for an expression of opinion, the Committee decided that in relation to the Agenda sub-committee's reports, the main committee should be called only for the purpose of receiving such reports, and not to discuss matters prior to their reference to the Agenda sub-committee.

Mr. Black suggested that the disposition of war products and the allocation of the billion dollar mutual aid appropriation be inquired into by the Committee.

In order to proceed with the sub-committee meetings called for this day, the Chairman suggested that the Committee meet again tomorrow to consider the question raised by Mr. Black and any other matters to be brought before the Committee.

The Committee adjourned accordingly until Friday, October 15, at 10.00 o'clock a.m.

R. ARSENAULT,
Clerk of the Committee.

FRIDAY, October 15, 1943.

The Special Committee on War Expenditures met at 10.00 o'clock, a.m., the Chairman, Mr. Cleaver, presiding.

Members present: Messrs. Black (*Cumberland*), Blackmore, Cleaver, Coldwell, Donnelly, Dupuis, Fauteux, Graham, Golding, Hill, Hurtubise, Jackman, McGregor, Nixon, O'Neill, Pinard, Reid, Sissons, Winkler.

The Committee having considered Mr. Black's suggestions respecting certain subjects of inquiry, it was agreed that sub-committee No. 2 had the power under the terms of its reference dated July 22, to inquire into the disposition of war products. The question of inquiring into the allocation of the billion dollar mutual aid appropriation was referred to the Agenda sub-committee.

Mr. McGregor submitted that the Committee should inquire into the salvage of government-owned construction equipment not in use. This was also referred to the Agenda sub-committee.

Mr. Fauteux suggested that the Committee inquire as to whether ships now being built in Canada could be used for commercial purposes after the war, in competition with ships of other countries. The matter was referred to Sub-committee No. 1 presently inquiring into shipbuilding of all types.

Mr. Blackmore referred to instances of waste brought to his attention, and was asked to confer with the Chairman of sub-committee No. 2.

Mr. Reid suggested that the activities of the Committee should be publicized by releasing statements to the press from time to time.

The Committee adjourned to the call of the Chair.

R. ARSENAULT,
Clerk of the Committee.

THURSDAY, November 4, 1943.

The Special Committee on War Expenditures met at 9.30 a.m., the Chairman, Mr. Cleaver, presiding.

Members present: Messrs. Black (*Cumberland*), Cleaver, Coldwell, Donnelly, Dupuis, Fauteux, Ferland, Gladstone, Golding, Graham, Hill, Jackman, McGregor, Nixon, O'Neill, Picard, Pinard, Pottier, Reid, Sissons, Winkler.—21.

The Committee had under consideration matters relating to its future proceedings.

The Chairman stated that the subcommittees had hoped to adjourn their present sittings on or before November 6. He submitted a statement of estimated expenditures based on this assumption and providing for a resumption of the Committee's sittings on January 19, 1944, for the consideration of the Committee's reports to the House.

Mr. Graham, Chairman of the aluminum inquiry subcommittee, reported that at the request of Mr. Coldwell, a witness had been called to appear on Monday, November 6, and that the adjournment of the subcommittee would have to be delayed for some days if the inquiry was to be brought to a satisfactory conclusion.

Discussion followed indicating unanimous agreement that all necessary evidence be heard before adjourning the subcommittee's sittings.

On motion of Mr. Golding it was resolved that at the conclusion of its hearings the aluminum inquiry subcommittee meet in committee of the whole to determine the future activities of the Committee in the light of the situation at that time.

The re-assignment of stenographers to members, necessitated by the impending adjournment of subcommittee No. 1, was left to the discretion of the Chairman after consulting with Mr. Graham and the Clerk of the Committee.

The Committee adjourned to the call of the Chair.

R. ARSENAULT,
Clerk of the Committee.

TUESDAY, November 9, 1943.

The Special Committee on War Expenditures met at 4.30 p.m., the Chairman, Mr. Cleaver, presiding.

Members present: Messrs. Blackmore, Cleaver, Coldwell, Donnelly, Fauteux, Gladstone, Graham, Jackman, Nixon, O'Neill, Picard, Pinard, Sissons, Winkler.

On motion of Mr. Sissons,

Resolved,—That employment of the Committee Reporters and of the Dictaphone Operators, authorized by the Committee on September 13, 1943, be terminated on November 13, 1943.

On motion of Mr. Graham,

Resolved,—That employment of the Clerk, authorized by the Committee on September 13, 1943, be terminated on November 13, 1943.

On motion of Mr. Jackman, the following resolution was adopted, viz:—

"Whereas the employment of all stenographers authorized by the Committee on September 13, 1943, was terminated by proper notice effective November 6, 1943;

And whereas, owing to the inability of the sub-committees to complete the aluminum inquiry when planned the following stenographers were further employed on a per diem basis, namely: Ann Wolff, Violet M. Jackson, Pauline Dechene, Agnes Anderson, Vera Barton, Therese Brunelle, Paule Chaussè, Winnifred Linton and Jean McIntosh;

Therefore, the payment of the above noted for an additional three days is hereby authorized."

On motion of Mr. Jackman,

Resolved,—That during the impending adjournment of the Committee, Mr. Graham, Chairman of sub-committee No. 3 be paid the regular per diem expense allowance for a period not exceeding two weeks while in Ottawa preparing the aluminum inquiry report.

On motion of Mr. Picard,

Resolved,—That during the impending adjournment of the Committee, Violet M. Jackson be employed to assist Mr. Graham, Chairman of Sub-committee No. 3, for a period not exceeding two weeks, at the same rate of pay as authorized by the Committee on September 13, 1943.

On motion of Mr. Coldwell,

Resolved,—That the expenses of Mr. Irving Lipkowitz, who appeared before Sub-committees Nos. 2 and 3, be paid.

On motion of Mr. Donnelly,

Ordered,—That the expenses of Mr. R. E. Powell, who appeared before Sub-committees Nos. 2 and 3, be paid.

The Chairman suggested that the Committee reconvene on Wednesday, January 19, 1944, to consider its reports to the House. He impressed upon the members the importance of having the sub-committees' reports ready for consideration by the main committee not later than on January 21.

The Chairman thanked all members of the Committee for their co-operation, He also expressed the Committee's appreciation of the efficient work performed by members of the staff attached to the Committee.

The Committee adjourned until Wednesday, January 19, 1944, at 11 o'clock, a.m.

R. ARSENAULT,
Clerk of the Committee.

WEDNESDAY, January 19, 1944

The Special Committee on War Expenditures met at 11.00 o'clock a.m., the Chairman, Mr. Cleaver, presiding.

Members present: Messrs. Black *(Cumberland)*, Blackmore, Cleaver, Donnelly, Dupuis, Gladstone, Golding, Graham, Hill, Homuth, Hurtubise, Jackman, McGregor, Nixon, O'Neill, Pinard, Pottier, Reid, Sissons, Winkler.

The Chairman invited suggestions as to the procedure to be followed for the consideration of draft reports on the inquiries made by subcommittees.

It was agreed that the subcommittees proceed with the consideration of their respective reports and that the main Committee meet in evening sessions to receive such reports.

It was further agreed that following the adoption of reports by the subcommittees, a copy of the reports be made available to all members of the Committee prior to their presentation to the main Committee.

On motion of Mr. Reid, seconded by Mr. Pottier,

Resolved,—That the following stenographers be re-employed by the Committee, commencing this date: Ann Wolff, Violet M. Jackson, Louise A. Nash, Vera Barton, M. G. Beattie, Grace L. Bennett, Therese Brunelle, Paule Chaussé, Pauline Gravel, Gwen Hudson, Winnifred Linton, Lucienne Robert, Jean McIntosh; and that Margaret Keith be employed in lieu of Pauline Dechene.

Mr. McGregor made a statement alleging certain irregularities in connection with the construction of No. 2 shell filling plant at Pickering, and submitted that the matter should be inquired into by this Committee.

The Chairman stated that the Committee had been recalled for the consideration of its reports to the House with the understanding that no further evidence would be taken at this time. He invited Mr. McGregor to submit a memorandum to the Chairman or Clerk of the Committee indicating the nature of the alleged irregularities in order that any action deemed necessary might be taken.

The Committee adjourned until tomorrow, Thursday, January 20, at 8.00 o'clock p.m.

R. ARSENAULT,
Clerk of the Committee.

THURSDAY, January 20, 1944.

The Special Committee on War Expenditures met at 8.00 o'clock p.m., the Chairman, Mr. Cleaver, presiding.

Members present: Messrs. Black *(Cumberland)*, Blackmore, Cleaver, Coldwell, Donnelly, Dupuis, Gladstone, Golding, Graham, Hill, Homuth, Jackman, McGregor, Nixon, O'Neill, Pinard, Picard, Pottier, Reid, Sissons, Winkler.

The minutes of the last meeting were read and approved.

On motion of Mr. Pottier,

Ordered,—That the name of Albertine Deziel be substituted for that of Pauline Gravel on the list of stenographers adopted by the Committee on January 19.

The Committee proceeded to consider a draft report on conditions relating to agricultural implements and repairs supply, submitted by Subcommittee No. 4.

The said report having been considered and amended, Mr. Golding moved that it be adopted as amended and presented to the House as the Committee's Second Report.

Motion carried.

The Chairman suggested that following the adoption of all reports, and before final adjournment, a meeting of the Main Committee be held for general discussion.

The Committee agreed, the said Meeting to be held on Tuesday, January 25, at 11.00 o'clock, a.m.

The Chairman presented as follows, a report of the Agenda Subcommittee dated this day, viz:—

> The Subcommittee on Agenda begs leave to present the following report:—
>
> > That the text of press reports issued by Mr. McGregor stating that with respect to the construction of Number 2 shell-filling plant at Pickering, there has come to him evidence of serious allegiations of payroll padding and misuse of materials, be forwarded to the Minister of Munitions and Supply forthwith.
> >
> > In view of the fact that it would be a physical impossibility to make a complete investigation of the balance of Mr. McGregor's statement respecting "mismanagement" before Wednesday next when the present session ends and the life of the present committee terminates, that the matter be given prompt consideration, when the War Expenditures Committee is appointed next session.

Mr. Pottier moved that the report of the Agenda Subcommittee be adopted.

Mr. Homuth moved, in amendment, that all the words after the word "terminates", in paragraph 2, be deleted and the following substituted therefor: "and that the War Expenditures Committee be reconstituted promptly in the new session, and that the matter be given immediate consideration".

After discussion, Mr. Homuth withdrew his amendment and the main motion was adopted.

Mr. Homuth moved:

That the Clerk of the Committee prepare a report to the House recommending that a War Expenditures Committee be set up promptly in the new session, to continue its work, and that such report be brought before this Committee for adoption at the meeting on Tuesday, January 25.

Motion carried on division.

The Committee adjourned until 3.00 o'clock p.m., tomorrow, Friday, January 21.

R. ARSENAULT,
Clerk of the Commitee.

FRIDAY, January 21, 1944.

The Special Committee on War Expenditures met at 4.00 o'clock, p.m., the Chairman, Mr. Cleaver, presiding.

Members present: Messrs. Black (Cumberland), Blackmore, Cleaver, Coldwell, Donnelly, Dupuis, Gladstone, Golding, Graham, Homuth, Hurtubise, Jackman, Hill, McGregor, Nixon, O'Neill, Picard, Pinard, Pottier, Reid, Sissons and Winkler.—22.

Reference was made by Mr. Dupuis to the loss sustained by a member of the Committee, Mr. Blackmore, in the death of his son on active service overseas.

On motion of Mr. Dupuis and Mr. Reid,

Ordered—That the Clerk convey the sympathy of the Committee to to Mr. Blackmore.

Mr. Graham, Chairman of the joint sub-committees Nos. 2 and 3, presented the report on the inquiry into aluminum, and the Committee proceeded to the consideration of the said report.

At the request of the Chairman, Mr. Graham took the chair.

It was agreed to consider the report by sections.

On motion of Mr. Donnelly, section one (pages 1 to 13) adopted, on division.
On motion of Mr. Sissons, section 2 (pages 13 to 16) adopted, on division.
On motion of Mr. Winkler, section 3 (pages 16 to 25) adopted, on division.
On motion of Mr. Donnelly, section 4 (pages 25 to 28) adopted, on division.
On motion of Mr. Sissions, section 5 (pages 28 to 47) adopted, on division.
On motion of Mr. Pinard, section 6 (pages 47 to end) adopted, on division.

Mr. Coldwell made a statement objecting to the findings of the Committee in the light of the evidence taken. Discussion followed.

Mr. Pinard moved that the Report of joint sub-committees 2 and 3 be adopted and that it be presented to the House as the Committee's Third Report.

Motion carried, Mr. Coldwell dissenting.

The Committee adjourned until tomorrow, Saturday, January 22, at 11 o'clock a.m.

R. ARSENAULT,
Clerk of the Committee.

SATURDAY, January 22 1944.

The Special Committee on War Expenditures met at 11 o'clock a.m., the Chairman, Mr. Cleaver, presiding.

Members present: Messrs. Black, (Cumberland), Blackmore, Cleaver, Donnelly, Gladstone, Golding, Graham, Hill, Hurtubise, McGregor, Nixon, O'Neill, Pinard, Pottier, Reid, Sissons and Winkler.

Mr. Pottier, Chairman of Sub-committee No. 1, presented the report of the Sub-committee, on Shipbuilding, and the Committee proceeded to the consideration of the said Report.

Mr. McGregor moved in amendment to the Report, that schedules submitted as part of the evidence and relating to figures quoted in the report (para. (*e*) "cost") at the bottom of page 8, be incorporated in the Report.

Amendment negatived.

Mr. McGregor moved that paragraph 2 on page 13, entitled "Tribal Class Destroyer" be amended by adding further information including cost of construction in Canada as compared with cost in other countries.

Amendment negatived.

The Report having been considered and amended,

Mr. Pottier moved that the said Report, as amended, be adopted and presented to the House as the Committee's Fourth Report.

Motion carried on division.

The Committee adjourned until Tuesday, January 25th, at 11 o'clock a.m.

R. ARSENAULT,
Clerk of the Committee.

TUESDAY, January 25, 1944.

The Special Committee on War Expenditures met at 11.00 o'clock, a.m., the Chairman, Mr. Cleaver, presiding.

Members present: Messrs. Blackmore, Cleaver, Coldwell, Donnelly, Ferland, Gladstone, Golding, Graham, Hill, Hurtubise, Jackman, McGregor, Nixon, O'Neill, Pinard, Reid, Sissons, and Winkler.

In accordance with a resolution of the Committee adopted on January 20, the Chairman submitted the following draft report:—

> The Special Committee on War Expenditures begs leave to present the following as a Fifth Report:—
>
> 1. A copy of the Minutes of Proceedings of your Committee is tabled herewith.
>
> 2. Your Committee is of the opinion that its work should be continued and recommends that a committee on War Expenditures be appointed promptly at the next session.

On motion of Mr. Jackman, the above draft report was adopted and the Chairman was authorized to present same to the House.

On motion of Mr. Graham,—

Resolved,—That the Committee ratify the employment of Violet M. Jackson for eighteen days between December 14, 1943, and January 18, 1944, to assist in the preparation of a draft report from subcommittees Nos. 2 and 3, and that she be paid at the rate authorized for stenographers by resolution of the Committee on September 13, 1943.

On motion of Mr. Sissons,—

Resolved,—That the Committee ratify the employment of Ann Wolff and Louise A. Nash for two days (January 17 and 18, 1944) to assist in the prepara-

tion of a draft report from subcommittee No. 1, and that they be paid at the rate authorized for stenographers by resolution of the Committee on September 13, 1943.

On motion of Mr. Jackman,—

Resolved,—That notice be given to all stenographers employed by the Committee that their services will not be required after Tuesday, January 25, 1944.

On motion of Mr. Nixon,—

Resolved,—That Mr. Graham, Chairman of joint subcommittees Nos. 2 and 3, and Mr. Pottier, Chairman of subcommittee No. 1, each be paid an additional expense allowance of 14 days for time spent in the preparation of the subcommittees' reports.

On motion of Mr. Coldwell,—

Resolved,—That the Clerk of the Committee and the Committee Reporters be paid the following amounts for services rendered since November 13th up to and including to-day when their employment terminates, viz: R. Arsenault, $125; D. Butt, $25; W. J. Clinton, $25; R. A. Whitman, $25.

At this stage the Chairman invited discussion on the general activities of the Committee and a number of suggestions were offered to facilitate and improve the work of the Committee.

The Chairman congratulated and thanked the members for their attendance in the course of the Committee's sittings during the adjournment of the House. He also expressed the Committee's appreciation of the faithful services rendered by the staff attached to the Committee.

On motion of Mr. Golding a vote of thanks was extended to the Chairman and subcommittee Chairmen.

On motion of Mr. Reid,—

Resolved,—That the existing subcommittees be discharged.

Mr. Blackmore moved that the stenographic report of this day's proceedings be printed as part of the Minutes of Proceedings.

Motion negatived.

On motion of Mr. Graham,—

Resolved,—That the Minutes of Proceedings of the Committee and reports tabled in the House be printed.

On motion of Mr. Hurtubise, the Committee adjourned *sine die.*

R. ARSENAULT,
Clerk of the Committee.

REPORTS TO THE HOUSE

FIRST REPORT

MONDAY, July 19, 1943.

The Special Committee on War Expenditures begs leave to present the following as its First Report.

Your Committee recommends that it be empowered:—

1. To sit while the House is sitting and notwithstanding any adjournment of the House, and to adjourn from place to place.

2. To determine the manner and extent to which the evidence, proceedings and reports shall be printed or typed, and that where the same are ordered to be printed there be printed 500 copies in English and 200 copies in French, and that Standing Order 64 be suspended in relation thereto.

3. To appoint sub-committees, to fix the quorum of any such sub-committee, and to refer to such sub-committee any of the matters referred to the Committee; any sub-committee so appointed to have power to send for persons, papers and records and to examine witnesses under oath or otherwise, to sit while the House is sitting and notwithstanding any adjournment of the House, to adjourn from place to place, and to report from time to time to the Committee.

4. To employ such secretarial, reportorial, clerical and other assistance as it may deem necessary.

5. In cases where consideration of national security precludes the publishing of certain recommendations and of the arguments upon which they are based, to address a memorandum to the Prime Minister for the consideration of the War Cabinet, provided that the Committee shall, whenever it has exercised such powers, report the fact as soon as possible to the House.

Your Committee further recommends that during any adjournment of the House its Reports shall be deemed to have been tabled when filed with the Clerk of the House and seven days have elapsed after the date of such filing.

Your Committee further recommends that six members constitute a quorum, and that Standing Order 65 (3) be suspended in relation thereto.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

99546—2½

SECOND REPORT

JANUARY 26, 1944.

The Committee on War Expenditures has received from its Sub-committee No. 4 the following report on conditions relating to agricultural implements and repairs supply, which it has considered and adopted as its Second Report to the House.

REPORT OF SUB-COMMITTEE NO. 4

On October 14, 1943, this Sub-committee was appointed and was allotted the following subject for inquiry:—

(*a*) Present conditions relating to agricultural implements and repairs supply.

Your Sub-committee has since proceeded into this inquiry and begs leave to present its first report of findings and recommendations.

All of which is respectfully submitted.

W. H. GOLDING,
Chairman, Sub-committee No. 4.

GENERAL NEED FOR AGRICULTURAL IMPLEMENTS

Canadian agriculture has since the outbreak of the war lost to the armed services and to war industry nearly one-half million of those employed in the industry. In addition, the industry has been called upon to increase manyfold Canada's production of finished farm products for export, and there is an ever-increasing demand for agricultural production on account of our export for war purposes as well as on account of increased consumer demand in Canada caused by the increased national income.

As a result of the above-noted farm labour shortage, the demand for increased production, and a drastic curtailment of the manufacture of farm implements to conserve essential war materials a very serious shortage of farm implements (especially labour-saving devices) has occurred, which should be remedied at the earliest possible date.

Your sub-committee has made a thorough inquiry into the possibility of an immediate increase in the supply of farm implements, and wishes to gratefully acknowledge the assistance it received from:—

The farm implements companies in Canada
Representatives of the Canadian Federation of Agriculture
Mr. D. P. Cruikshank, Metals Co-Ordinator, Wartime Prices and Trade Board
Mr. H. Bloom, Administrator for Agricultural Implements, Wartime Prices and Trade Board
Mr. M. A. Hoey, Associate Steel Controller, Department of Munitions and Supply
Mr. R. M. Fowler, Secretary to General Counsel, Wartime Prices and Trade Board
Mr. C. Gavsie, Assistant Counsel, Department of Munitions and Supply

WAR RESTRICTIONS ON PRODUCTION OF FARM IMPLEMENTS

Canada produces approximately 48 per cent of its required farm machinery supplies, and imports the balance from the United States. With respect to the farm implement and farm machinery supply produced in Canada, over 20 per cent of this production is imported parts and materials from the United States, the result being that only 38 per cent of Canadian farm machinery supplies are produced in Canada.

With the entrance of the United States into the war and on account of the acute shortages developing with respect to essential war materials under date of September 31, 1941, the United States Limitation Order L26 was issued, which Order restricted farm implements manufacturers to 80 per cent of their 1940 tonnage with respect to new farm machines, and which Order also restricted their tonnage output of repair parts to 150 per cent of their 1940 tonnage. This restrictive order was operative for the period November 1, 1941, to October 31, 1942. On account of the close liaison which has existed between the United States and the Canadian war efforts, and also on account of the dependance of Canadian supply of farm machinery upon United States production of farm machinery, a conference was immediately held between representatives of both governments, as a result of which the United States War Production Board agreed to supply to Canada its full share of the restricted United States production based upon our 1940 imports, and whereby Canada agreed to impose in Canada similar limitation upon the production of farm machinery supplies as had been imposed upon the United States industry. This undertaking on the part of the United States Government has been fully implemented. Their action in putting our requirements on the same basis as their own, notwithstanding very short supply, is deserving of every commendation by your Committee and by the Canadian people. As to the Canadian production, this was restricted to an overall tonnage output of 84 per cent as to new machines and 140 per cent as to repair parts, which resulted in the same total tonnage output as was provided for in the United States, but varied slightly the distribution between new machines and repair parts in order to meet Canadian needs.

Owing to shortages of essential raw materials becoming more acute (especially steel), very drastic reductions became inevitable for the 1943 season, and both Canada and the United States reduced their production of new machines to approximately one-quarter of the production of the base year 1940, but held the production of repair parts at practically the same level. This very drastic order was later modified, bringing up the overall tonnage to approximately 56 per cent of the base year 1940, the modification being possible through a slight easing in regard to the steel shortage.

The program for the year 1944 has already been agreed upon at 89·5 per cent tonnage of the 1940 base year, but on account of the further improvement which has recently occurred in regard to the supply of essential war materials, negotiations are now pending for a still further increase of the 1944 quota.

Attached as Appendix "A" to this report is a detailed statement of the restricted quotas in force in both United States and Canada for the years 1941, 1942 and 1943.

WAR RATIONING OF FARM IMPLEMENTS

The restrictions above referred to in regard to production of farm implements immediately necessitated rationing in order that the existing supply would be equitably distributed according to actual need. Careful studies were made with respect to rationing regulations in force in Great Britain, the United States and Australia, also in regard to existing distribution agencies in Canada. As a result of these studies a Canadian rationing scheme was devised which would be suited to our needs. The studies which were made disclosed the fact that approximately 60 per cent of the tonnage of farm machinery supplies are used in Western Canada and 40 per cent in Eastern Canada. The available supplies were consequently allotted on this basis and Ration Boards were set up to make the necessary individual distributions. Of some 168,532 applications which have been received by the Ration Boards across Canada for farm implements all have been granted and new machines delivered, except a small residue of less than 5 per cent of the applications which were, upon

consideration, declined. The subcommittee fully appreciates the fact that these figures do not prove that 95 per cent of Canada's needs were taken care of as only the most urgent applications ever became formal applications for permits. Canadian agriculture responded to a request that only urgent applications should be made, and, in addition, the Canadian agricultural implements industry discouraged the filing of needless applications or of applications which obviously could not be filled. When the supply of farm implements was so short and the need so great it was inevitable that many injustices would occur, however, the subcommittee finds that in the main the existing supply has been equitably distributed.

PRICE CONTROL OF FARM IMPLEMENTS

The price of farm implements has been held at the price in effect during the basic period with the exception that adjustments not exceeding 5 per cent increases have been permitted in a limited number of instances to take care of abnormal conditions. No increases in retail prices have been allowed to cover further increases in manufacturing costs in Canada nor to cover increases in prices of United States imported machines or parts, notwithstanding the fact that in numerous cases increases in such lines have been approved by the United States Office of O.P.A.

SHORTAGES WHICH STILL EXIST AND WHICH WILL RETARD PRODUCTION OF AMPLE QUANTITIES OF FARM IMPLEMENTS

There is ample factory productive capacity in Canada to handle a much greater volume of implement production than we now have. The major problems now facing the industry are as follows:—

(*a*) Shortage of malleable castings due to volume of war production work;
(*b*) Shortage of ball and roller bearings;
(*c*) Shortage of seasoned fir and oak required for the production of certain types of farm machinery;
(*d*) Shortage of experienced manpower.

RECOMMENDATIONS

As a result of its investigations the Sub-Committee makes the following recommendations:—

1. That every possible assistance and encouragement should be extended to the agricultural implement industry in Canada to substantially increase its production of agricultural implements and repairs in order to meet the urgent need for these implements, and further that in this regard special emphasis should be given to the supply of labour-saving implements such as combines, one ways, potato diggers, pick-up balers, milking machines, cream separators, etc.

2. That active steps should be taken to stimulate the production of malleable iron castings, and that, if necessary, temporary subsidies should be paid to permit the industry to supply the present urgent need for its products.

3. That our Selective Service Department should continue to give careful attention to the manpower requirements of agricultural implement manufacturers.

4. That full publicity should be given in the near future to the fact that additional farm implements will be available for the 1944 season so that farmers requiring implements will order them in sufficient time to permit the different rationing tribunals to distribute the available supply according to actual need.

5. Your Committee fully realizes that in the past many types of farm implements, now extensively used, were not then used in sufficient quantities to warrant a setting up of expensive plants to manufacture such implements in Canada. Your Committee is convinced that the whole situation is completely changed and that the increased number of tractors, as well as other equipment and component parts such as ball and roller bearings now in use, warrants our

implement manufacturers making a careful and thorough study of the possibility of manufacturing a much higher percentage of Canada's agricultural implement needs. In view of our tremendous industrial development brought about by the war, and in view of the dominant position which Canadian agriculture now holds with respect to food production, it is unthinkable that Canadian manufacturers should continue to supply only 38% of the farm implements used in this country. Your Committee is of the opinion that such an industrial expansion would fit in with our reconstruction policy and program.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

APPENDIX "A"

The following is a resume of the Canadian Farm Machinery Orders and Percentages and the U.S.A. Orders which paralleled those of Canada.

QUOTA COMPARISON DATA

Canadian Order R-1—1942 Period Quota in relation to 1940—

U.S.A. Order L-26	—Machines	— 84%
	Repairs	—140%
	Overall	— 95·6%

Canadian Order—1943 Period Quota in relation to 1940—

A-395 and Amended A-749 U.S.A. Order L-170	Machines	— 24%
	Approved appeal bringing total up to	— 35%
	Repairs	—150%
	Approved appeal bringing total up to	—165%
	Overall	— 56%

Canadian Order—1944 Period Quota in relation to 1940-41 average

A-810 U.S.A. Order L-257	Machines	— 76·6% *or* 80% of 1940
	Repairs	—156% *or* 160% of 1940
	Overall	— 89·5%

The Base Tonnages for the year 1940 covering Canadian domestic consumption are as follows:

Completed machines, U.S.A. origin	59,748 tons
Completed repair parts and attachments, U.S.A. origin	10,544 tons
Raw materials and semi-fabricated and fabricated parts	28,726 tons
Completed machines, Canadian origin	59,355 tons
Completed repair parts and attachments	12,590 tons

THIRD REPORT

January 26, 1944.

The Special Committee on War Expenditures has received from its Joint Subcommittees Nos. 2 and 3 the following report on Aluminum, which it has considered and adopted as its Third Report to the House.

REPORT OF JOINT SUBCOMMITTEES NOS. 2 AND 3

On July 22, 1943, those Joint Subcommittees were appointed and were allotted inter alia the following subject for inquiry:—

(*a*) Shipshaw Development.

Your Subcommittee has since proceeded into this inquiry, has held 43 sittings in addition to Committee visits to Arvida and Kingston, and begs leave to present its first report of findings and recommendations.

All of which is respectfully submitted.

R. T. GRAHAM,
Chairman,
Joint Subcommittees Nos. 2 and 3.

Your subcommittee begs leave to submit the following report on the Shipshaw power development, near Arvida, in the Province of Quebec, and on matters having to do with the aluminum production by the Aluminum Company of Canada Limited.

GENESIS OF INQUIRY

The necessity for the inquiry arose as a result of certain statements or allegations made in the House of Commons by Mr. M. J. Coldwell, M.P., leader of the Co-Operative Commonwealth Federation party, and particularly on June 14, 1943.

These allegations can be summarized under the following general headings:—

(1) That the Arvida plant of the Aluminum Company of Canada Limited could produce commercial ingots at a price of 8.93 cents a lb. or less, and that this cost considered in relation to the actual selling price to the Governments of Great Britain, United States, Australia and Canada indicated undue profits.

(2) That the terms of the agreement between the Government of the Dominion of Canada, and the Aluminum Company of Canada Limited, in dealing with special depreciation allowed the Company, constituted a "gift" to the corporation.

(3) That labour conditions at the Company's plants were bad.

(4) That the Aluminum Companies of Canada were part of a world monopoly, and that the Government by its action had contributed to the continuance of this monopoly.

(5) That the whole transaction was from Canada's standpoint an improvident one.

The allegations that the prices charged by the Company for aluminum were excessive, and that the Government of the Dominion of Canada had made an unwarranted "gift" to the Aluminum Company of Canada Limited, brought the matter within the scope of the reference by the House of Commons to the War Expenditures Committee.

Because of the very considerable publicity given to the statements made by Mr. Coldwell and others in the House of Commons and elsewhere, your subcommittee attempted to probe all major phases of the Company's operations. Mr. Coldwell was a member of the subcommittee and was given every opportunity to call witnesses in support of his allegations.

SUMMARY OF FACTS

Aluminum Company of America, a United States corporation otherwise referred to as Alcoa, first entered the Canadian field in 1899 by establishing an aluminum production plant at Shawinigan Falls, in the Province of Quebec. Later it established a fabricating plant in the city of Toronto.

In 1925 Alcoa purchased from the then owners certain water power rights on the Saguenay river. The development of these rights became known as the Shipshaw projects.

It is essential to aluminum production to have an ample supply of electric power, and it was the possibility of developing a large source of hydro electric power with a water route to tidewater that attracted Alcoa to the Saguenay.

The site was in a district in which no industrial development had taken place other than some manufacturing of pulp. The Duke-Price Power Company Limited had already developed a power site on the Saguenay at Ile Maligne, and had in addition built a dam raising the level of Lake St. John, out of which the Saguenay flows, some 17½ feet, thereby greatly enlarging the storage capacity of the lake.

Subsequently in the year 1926 Alcoa purchased a 53⅓% interest in the stock of the Duke-Price Power Company Limited (now known as the Saguenay Power Company Limited), and which owned the development at Ile Maligne, hereinbefore referred to.

In consideration of the transfer of a 53⅓% interest in the capital of this Company to Alcoa, the Aluminum Company of Canada Limited, then a subsidiary of Alcoa, contracted to take 100,000 h.p. annually over a period of fifty years beginning July 1, 1926, at a price of $12 per h.p. In other words, the Aluminum Company of Canada Limited, otherwise referred to as Alcan, committed itself to an obligation of $60,000,000 spread over a period of fifty years. The purpose in securing this power contract was to supply an aluminum production plant at Arvida.

The period was a period of expansion, and in 1928 Alcoa, through its subsidiary Alcoa Power Company Limited, began developing the first stage of the Shipshaw project at Chute a Caron. Originally this consisted of the building of a dam and a diversion canal. However, soon after the project was started the world demand for aluminum decreased, and as a result it was realized that the somewhat grandiose original plan was too great an undertaking for the expected production program of the Company. As a result the canal was not proceeded with, generators were installed at Chute a Caron capable of developing 260,000 h.p. and further development stopped. The Chute a Caron power project was completed in 1931.

In 1928 Alcoa incorporated Aluminium Limited, a Canadian company, for the purpose of owning and controlling the Canadian developments, and in addition practically all the foreign subsidiaries of Alcoa and of which a substantial number was situate within the British Empire. These foreign subsidiaries are largely fabricators of raw aluminum produced in Canada and constitute the companies' marketing agencies in the world markets. Aluminium Limited was a holding company, not a producing company. The Shipshaw projects were not immediately included in the transaction. Aluminium Limited, however, later purchased from Alcoa all of the assets and share capital of

Alcoa Power Company Limited. As a result of these transactions Alcan became a wholly owned subsidiary of Aluminium Limited and is the Canadian producing company.

As payment for the assets so transferred to Aluminium Limited all of the shares in Aluminium Limited were issued to Alcoa, which in turn distributed these to its own shareholders in the ratio of one share in Aluminium Limited to three shares in Alcoa.

Aluminium Limited purchased the Shipshaw power development from Alcoa at and for the sum of $35,000,000, and as part of the consideration undertook to supply Alcoa with 75,000,000 pounds of aluminum at thirteen cents per pound, delivery to take place over a period of three years. The purchase price of the Shipshaw power development was the cost of the project as shown on the books of Alcoa as of the date of purchase.

In the meantime Alcan had built at Arvida an aluminum plant which together with the plant at Shawinigan Falls were capable of producing 45,000 metric tons of aluminum per annum working 24 hours a day.

In the depression years, however, the scale of aluminum decreased sharply and Alcan found itself in the position of having a very substantial surplus of power and of production facilities.

A table showing the production record of Alcan in Canada of raw aluminum in ingot form during the years 1928 to 1937 inclusive follows.

1928.....	37,600	metric	tons	or	83.5%	of	capacity
1929.....	28,800	"	"	"	64.0%	"	"
1930.....	34,600	"	"	"	76.9%	"	"
1931.....	30,900	"	"	"	68.6%	"	"
1932.....	18,000	"	"	"	40.0%	"	"
1933.....	16,100	"	"	"	35.8%	"	"
1934.....	15,800	"	"	"	35.1%	"	"
1935.....	21,000	"	"	"	46.6%	"	"
1936.....	26,900	"	"	"	59.8%	"	"
1937.....	42,600	"	"	"	94.6%	"	"

The 100,000 h.p. which Alcan obtained from the Saguenay Power Co. at Ile Maligne was ample to take care of the production program in the depression years. The result was that the company had surplus unused power equal to the amount developed at Chute a Caron, 260,000 h.p. Some of this power was sold at dump rates, the company accepting on some occasions a price as low as $2.50 per h.p. It was found, however, impossible to sell it all even at dump rates, with the result that no revenue was produced from a portion of the surplus.

During this period Alcan scoured the country seeking to induce other industries to locate at Arvida or in sufficiently close proximity to the power source. It found, however, that the cost of electric power is not of sufficient importance in the average industry to induce it to leave the more heavily populated regions where railway, power and other facilities are available, where the industry is closer to a market and where as a rule the necessary supply of labour can be secured.

In the average industry, electric power costs average 1½ per cent of gross value of production, in the aluminum industry 10 per cent.

For each person employed in the production of aluminum over 100 h.p. is required as compared with ½ h.p. per person employed in the Bren gun plant at Toronto, and about ⅛ h.p. per person in the average textile industry.

In any event the Company was able to induce one company only to locate in the Arvida district and this used only a very small amount of power.

This situation continued until approximately 1935, soon after the advent of Hitler to power in Germany, and from then on there was a growing demand for aluminum from Germany, Japan and Russia. The statistical records submitted to the sub-committee indicate clearly that these countries realized the importance of aluminum in the development of air power, and that they were conscious of the likelihood of the outbreak of a world war and were making provision accordingly.

The statistics show that in 1939 Great Britain, the United States and France became convinced of the probability of war, and they too began to increase their demands for aluminum.

This trend in world demand declared itself also in greatly increased production in Germany, Italy, Japan and Russia. In the year 1939 the countries now known as the Axis countries produced a majority of the world total. Despite the demand for aluminum, Alcan still had a surplus of power and it was in all likelihood this surplus of power and the fact that a company experienced in the production of aluminum was located at Arvida that caused the British authorities to conclude that Alcan was in the best position to increase the supply of aluminum so urgently needed for aircraft production.

In the spring of 1940 the company was approached by the British Government for a very substantially increased production, the exact amount of which is withheld following the settled policy of the United Kingdom Government in this regard.

The suggested increase of production would necessitate an expenditure for the construction of a new plant of approximately $30,000,000. Financing such an expansion was beyond the resources of the Company and under the agreement of February 2, 1940, it was provided:—

1. The United Kingdom Government would make a twenty year 3 per cent loan to the Company of $29,900,000.
2. The Company would erect the necessary new works and use every endeavour to have these in operation in ten, twelve, thirteen and fourteen months in successive and equal stages.
3. The Company would sell to the United Kingdom Government the total output of the new works and also the whole of the output of the Company's own plants up to the end of 1941, except a relatively small proportion reserved for Canada's estimated requirements. in the event of the state of emergency continuing to exist after 1941, the Company's facilities were to be reserved for United Kingdom requirements for a further period.
4. The Company would maintain its minimum productive capacity at the estimated capacity of the new works for a period of twenty years from 1st April, 1941.
5. The United Kingdom Government would abate the principal payable on the loan with respect to each year by an amount directly proportionate to the extent to which the new plant failed in any year to operate at capacity. (For example, were it to operate at 60 per cent of capacity in any year 60 per cent of the proportionate payment of the loan for that year would accrue and the remainder would be forgiven.) There was also provision for abatement of interest on a somewhat but not exactly similar basis.
6. The price was to be 20 cents per pound f.o.b. smelter, subject, however, (under what became known as the "escalator" clause), "to adjustment in each quarter in relation to any increase or decrease in Aluminum Company of Canada costs of production which may be certified by Price, Waterhouse, the basic quarter being that ended 30th September, 1939. Allowance shall only be made, however, for units of ½ cent per pound increase or decrease in the production cost."

On the 14th June, 1940, a similar arrangement for a further increase in production was made, and the British Government increased its loans to the Company by $9,700,000.

Again on the 11th February, 1941, a still further increase in production, involving a further loan of $16,000,000 on the same terms was arranged for with the provision that from 1st May, 1941, the price would be 18 cents per pound. This reduction in price was of course made possible by the greatly increased volume of production.

These were entirely United Kingdom Government contracts, and the Canadian Government had no part in completing the agreements between the United Kingdom Government and the Company.

The next important development in the Company's productive capacity again arose from negotiations to which the Canadian Government was not a party.

In the spring of 1941 negotiations took place between the United States Government and the Company culminating in a contract as of the 2nd May, 1941, the principal provisions of which were:—

1. The United States Government would buy from the Aluminum Company of Canada 170,000 metric tons (2,204.6 pounds) of raw aluminum at 17 cents per pound United States funds, less certain deductions not to exceed ·795 cent per pound and subsequently estimated by the Company to average .545 cent per pound or a net figure to the Company in Canadian funds of about 18·1 cents per pound—the then prevailing United Kingdom price.
2. The price would be subject to adjustment upward or downward to the extent of any rise or fall in the cost of labour or transportation from a base period of the last six months of 1941.
3. Minimum deliveries in 1942 were stipulated at 53,333 metric tons and at 60,000 metric tons in 1943 with a balance of 56,667 to be delivered in 1944.
4. A loan of $25,000,000 United States funds was to be made, repayable by price deductions of 5 cents per pound as the resultant aluminum was shipped.

On the 15th July, 1941, a further contract for 170,000 metric tons of raw aluminum was negotiated by the United States Government on precisely the same terms, except that the minimum deliveries were to be—

23,000	metric	tons	in	1942
50,000	"	"	"	1943
97,000	"	"	"	1944

In connection with this contract the United States Government undertook to make a loan to the Company of a further sum of $25,000,000.

None of this aluminum could be made from facilities existing at the time of the contract. The Company thus faced the need for financing new productive facilities to turn out—

76,333	metric	tons	in	1942
110,000	"	"	"	1943
153,667	"	"	"	1944

Thus in assuming these contracts the Company undertook to make capital expenditures involving $75,000,000 and in addition was faced with the necessity of financing a new power development, without which the new pot lines for the production of aluminum could not run.

The United States entered the war in December of 1941 and immediately took steps to increase its supply of raw aluminum. On March 6th, 1942, a new contract was entered into by the United States Government with the Company. The principal changes were as follows:—

(1) The two previous contracts for 340,000 metric tons were replaced by the new one calling for 453,597 metric tons.

(2) The two loans of $25,000,000 each were called in and replaced by a down payment of $50,000,000 U.S. funds and these down payments were to be retired at the rate of 5 cents per pound of all aluminum actually delivered.

(3) The price on 80 per cent of the aluminum was reduced from 17 cents to 15 cents per pound U.S. funds retroactively to the first deliveries under the original contract, which, however, were only commencing to be made. The deductions were reduced to an estimated average of .25 cent per pound.

The price on the remaining 20 per cent remained at 17 cents per pound. This 20 per cent represented the amount likely to be exported by the United States under its "lend-lease" policy.

Almost immediately following this contract—on 1st April, 1942— a still further contract for another 370,000,000 pounds (167,839 metric tons) on virtually the same terms was executed with the United States Government. The down payment was $18,500,000 and provision was made for subsequent ten year 3 per cent loans for half the amount, $9,250,000, to the extent that the down payment was retired at the rate of 5 cents per pound against raw aluminum deliveries. The minimum delivery schedule was 250,000,000 pounds (113,376 metric tons) before the end of 1944 and the balance in 1945 with estimated deliveries of not less than 40,000,000 pounds (18,141 metric tons) in 1942 and not less than 80,000,000 pounds (36,283 metric tons) in 1943.

The effect of these still further increases in raw aluminum requirements was to set the minimum and estimated scheduled deliveries on United States account at—

	Minimum		Estimated	
1942	76,333	metric tons	94,474	metric tons
1943	110,000	" "	146,283	" "
1944	380,640	" "	326,216	" "
1945	54,463	" "	54,463	" "
	621,436	" "	621,436	" "

These contracts with the United States Government involved the further expansion of plant facilities at a cost of approximately $100,000,000, and in addition the expansion of hydro facilities to produce approximately 833,000 h.p.

The retroactive price reduction on 80 per cent of the American contracts was arranged without the knowledge of the Canadian Government and meant that the average net price to the Company was 16·665 cents Canadian funds. Upon being advised the Canadian Government arranged with the Company that the unit price on the United Kingdom contract for 1943 would be reduced to 16 cents, which in view of the larger quantity required in 1943 than in 1942 meant an average price for the two years of 16·7 cents per pound as compared with the United States price of 16·665 cents.

Since Canada's entry into the war Canada has been faced with a grave shortage of United States funds for war purchases in the United States. Sales of aluminum to the United States under the first two contracts providing $123,300,000 in United States funds obviously became of great importance under such circumstances to the Canadian Government. If all contracts with the United States are completed, the total payments will amount to approximately $250,000,000.

The War Exchange Conservation Act, being Chap. 2, 1940-41 Statutes of Canada, clearly recognized the importance of such a matter. Section 8 of this Act reads as follows:—

> (1) The Governor in Council in order to increase Canada's supply of foreign exchange may, on the recommendation of the Minister of Finance, enter into agreements with individuals, partnerships or corporations to grant assistance by way of special tax credits and/or special allowances for depreciation or depletion under the Income War Tax Act and/or The Excess Profits Tax Act, if, in the opinion of the Governor in Council, such assistance is necessary in order that an expansion of the exports of any individual, partnership or corporation receiving such assistance may take place or that the exports of any such individual, partnership or corporation may be maintained at levels higher than would otherwise obtain. The provisions of any such agreements granting tax credits and/or special allowances for depreciation or depletion shall be effective notwithstanding anything contained in the Income War Tax Act or The Excess Profits Tax Act.
>
> (2) Whenever an agreement has been entered into under the authority of this section, a copy thereof shall be laid before Parliament by the Minister of Finance within fifteen days, if Parliament is then sitting, or, if Parliament is not sitting, within fifteen days after the opening of the next session of Parliament.

As a result discussions took place between the Company and the Department of Finance with regard to capital investments in plant and power facilities which would have to be made if contracts with the United Kingdom and United States were to be fulfilled. Owing to the vital necessity of getting the production program into operation as quickly as possible Alcan, on the basis of oral assurances in this regard, proceeded without delay to make large commitments for the necessary plant expansion, including additional power facilities.

In June of 1941 the United Kingdom Government arranged for the Canadian Government, through the Department of Munitions and Supply, to act as its agent in negotiating renewals of and administering its raw aluminum contracts.

This was the first time the Canadian Government became actually interested in the contracts for raw aluminum, although the Department of Munitions and Supply had been for some time very much concerned about the necessity of increasing electric power facilities for aluminum production. The officials of this Department had reached a definite conclusion that air superiority was an essential to victory, and that Canada would be expected to supply great quantities of aluminum for this purpose.

On the 16th September, 1941, a renewal contract covering the United Kingdom Government requirements of raw aluminum for the year 1942 was negotiated on much the same terms as the original contracts, except the base price was 17½ cents per pound, a reduction of ½ cent per pound. The quantity covered by the contract took all the production of the facilities provided under the United Kingdom contract and all the output of the Company's original facilities, excepting a relatively small but adequate reservation for Canada's own needs.

The Australian Government had also been negotiating with the Company for a supply of raw aluminum, and in the summer of 1941 concluded arrangements for its estimated requirements for several years. The price for the years 1941 and 1942 was set at 18½ cents per pound, with an escalator clause similar to that in the United Kingdom contract but with a base period of the first three months of 1941 instead of the third quarter of 1939.

To carry out this contract with the Australian Government the Company had to increase its productive facilities still further, and to assist in the financing thereof an advance payment totalling $2,500,000 was provided for, repayable by deductions of 5·67 cents per pound from the price of the aluminum when actually shipped.

Before the contractual arrangements were reduced to final legal form the Department of Munitions and Supply was asked to become the agent of the Australian Government in completing the contract. The contract was executed by the Company on the 26th August, 1941.

The last important increase in productive facilities resulted from the requirements of the United Kingdom, and was embodied in a contract of the 10th June, 1942. Prepayments totalling $15,000,000 were provided for the necessary plant expansion, and in addition a ten year 3 per cent loan of $5,000,000.

Canada's own requirements were relatively small and were confined to fabricated items.

Direct Government purchases from the outbreak of war to August 20, 1943 totalled only $865,204.

Purchases by Canadian aeroplane manufacturers were more substantial totalling roughly $29,000,000.

The Company agreed to furnish Canadian requirements at a price not higher than obtaining in the United States for similar items.

Owing to the relatively small quantities and the plant changeovers required to produce these the Canadian orders were not a source of profit to the Company.

To meet these demands of the various governments it was necessary for the Company to expand its facilities to produce at the end of 1943 an estimated 505,000 metric tons. This involved a capital expenditure of about $120,000,000, apart from the amount financed by the United Kingdom loans of $55,600,000, and apart from the new power development costing approximately $70,000,000.

It became apparent that the United Kingdom Government's imperative needs for still more raw aluminum could not be met by existing facilities. The Company's finances were being strained to the limit in its existing plant expansion programs, and it became clear that still more advances would have to be made by the United Kingdom Government, and that the problem of charging the relative expenditure for plant expansion as a productive cost would have to be faced. Neither in this case nor in the case of the Australian contract could the provisions of the War Exchange Conservation Act be advantageously applied since no benefit would be derived by Canada therefrom in terms of United States funds.

Another difficulty was that the extreme urgency made it impossible to segregate expenditures on successive plant expansions on account of United States production from successive plant expansions on account of United Kingdom and Australian Governments. Plant additions were of course built into or added to the Company's existing plants.

Accordingly it was concluded that the War Exchange Conservation Act would not properly cover the situation, and that it fell more appropriately within the scope of the War Contracts Depreciation Board.

The War Contracts Depreciation Board was an independent Board created by Order in Council P.C. 4217, dated the 27th August, 1940, and whose first Chairman was the Honourable Mr. Justice C. P. McTague of the Supreme Court of Ontario. The principal duties imposed upon the Board were as follows:—

1. To determine if the contract is a "war contract" as defined in the initial regulations made under the Order in Council.

2. To determine if the capital expenditures incurred were in connection with the fulfilment of the terms of the said "war contract" and necessarily incidental thereto.

3. To determine the amount of the capital expenditures made.

4. To determine what part, if any, of the said capital disbursements have no reasonable post-war value and thereby to determine the amount of such capital expenditures upon which special depreciation may be allowed.

5. To determine in any case or cases which the Board thought advisable the annual rate or other rate of depreciation to be used in respect of any capital expenditure incurred under a "war contract".

The Board was given power to require contractors holding war contracts to supply evidence as might be required for the Board's purposes, to issue regulations and having reached a decision to issue a certificate as to the amount of special depreciation to be allowed and the period over which it might be charged into production costs.

Canada's war effort necessitated the building of new plants or the expansion of existing ones solely for the purpose of supplying war needs. As the war effort expanded war supply contracts increased in number and it was recognized that some provision had to be made to protect contractors against capital loss in building or expanding plant facilities to the point where these would be quite incapable of profitable use excepting during the war period.

In order, therefore, to assure equality of treatment the Government set up an independent body for the task, judicial in its nature, of determining in each case the amount of capital investment entitled to be charged against costs of war production under the heading "Special Depreciation".

The whole matter, therefore, of the special depreciation that should properly be allowed Alcan was referred to the War Contracts Depreciation Board. The Board found that technically it had no jurisdiction since its authority was confined to contracts in which the capital expenditure had already been made, and this was only partly true in the vast expansion program of Alcan.

The Board did, however, carefully consider all of the facts in relationship to the matter and made recommendations to the Dominion Government setting out the terms of depreciation which it would have allowed to Alcan had it the necessary jurisdiction. These recommendations were forwarded to the Minister of National Revenue and in December of 1942 were embodied in an agreement between the Dominion Government and Alcan.

The special depreciation agreement of the 31st December, 1942, referred to in the last paragraph, contained the following principal provisions:—

1. The Company undertook to expand its aluminum production facilities to a capacity of approximately 500,000 metric tons per annum and to complete the Shipshaw electric power development with diligence and despatch, both to be completed not later than the 31st December, 1944, the first at an estimated cost of $117,000,000 plus an additional 5 per cent for contingencies, if necessary, and the second at an estimated cost of $62,500,000 plus an additional 10 per cent for contingencies, if necessary.

2. Within the above limits, the Government undertook to allow the actual capital costs of the aluminum plant expansion and 60 per cent of the cost of the electrical power expansion, certified to by Price, Waterhouse Company, as special annual deductions from income at the rate of 5½ cents per pound of all raw aluminum actually shipped in the period of four years and seven months from 1st June, 1941, to 31st December, 1945.

3. In the event of cancellation of the contracts before the special deductions at the rate of 5½ cents per pound, had equalled the agreed amount, the Government undertook to allow the deductions to be increased retroactively to such a rate as would permit of the total special deductions reaching the necessary sum.

4. Protective provisions were made to prevent the possibility that assets covered by the special deductions might be made the subject of further depreciation or sold at capital profit.

The Company has carried out ahead of schedule its obligations under the agreement and has fulfilled on schedule its contracts for delivery of aluminum to the different Allied Governments.

ALLEGATIONS

Your subcommittee now proposes to deal in some detail with the allegations made by Mr. Coldwell in the House of Commons on June 14, 1943.

1. *That the Aluminum Company of Canada Limited could produce commercial ingots at a cost of 8·93c a lb. or less, and that this cost considered in relation to the actual selling price to the Governments of the United Kingdom, the United States, Australia and Canada indicated exhorbitant profits.*

Mr. Coldwell's statement as reported in Hansard at page 3687 is as follows:—

> In the course of an investigation into the operations of the Aluminum Company of America, and in a brief submitted to the courts on behalf of the United States government, references are made to the cost of producing commercial ingots at Arvida in the year 1937. Not only will you find the reference there; it will be found also in the annual report of the company for 1937 or 1938, when Mr. E. K. Davis, president of Aluminium Limited, made the statement that they were selling some aluminum at 13c a lb. and that this gave Aluminum Company of Canada a profit of 4c a lb., giving a cost at that time, estimated in that way, of 9c a lb., and it was admitted by the company before the United States courts that in that year, with a relatively small production, with the equipment then installed and including in the price the profits made by the subsidiary companies in the production of bauxite, power and so forth, the Arvida plant was producing commercial ingots at a price of 8·93c a lb. To-day the new aluminum plant, with the latest, most modern and most efficient machinery; producing, as the Minister told us on Friday, six times as much aluminum as in 1939, still charges 15 cents and 17 cents a lb. as a base price.
>
> With the vastly increased production and the more modern equipment, Aluminium Limited at its Arvida plant should produce the metal at a much lower figure than in 1937.

Again at page 3691.

> The newest, most efficient, most economical pots for smelting have been installed at Arvida with almost unlimited hydro-electric power. No wonder that the estimate was given to me that under ordinary circumstances, with the usual provision for amortization, and with vastly increased production, aluminum could be produced at Arvida for about 6c a lb.
>
> The conclusion is inescapable that as far as aluminum is concerned the monopolistic power of the Aluminum Company of America exercised through its creature in Canada, Aluminium Limited, is exacting from the United Nations—with the consent of the government—a toll unparalleled in history.

The sub-committee had before it a breakdown of the Company costs of producing pig ingots or raw aluminum in the years 1928, 1933, 1937 and 1942, certified as correct by Price, Waterhouse Company, an internationally known firm of chartered accountants. In addition the Company submitted a breakdown of costs for the first half of 1943.

In addition information was submitted as to the profits earned by the Company in the year 1942 and the first half of 1943 on its United Kingdom contracts. A statement showing this information is given below: —

ALUMINUM PIG INGOT COSTS IN CENTS PER LB. PRODUCED

—	1928	1933	1937	1942	First half 1943
Pot Lining	.16	.14	.20	.16	.16
Electrodes	1.45	1.36	1.02	1.08	1.16
Power	1.85	4.35	2.14	2.03	1.94
Ore	5.62	4.23	3.80	5.73	7.55
Electrolyte	.47	.35	.50	.42	.56
Alloys	.05	.09	.07	.14	.07
Labour	.69	.39	.51	.66	.71
Repairs and Maintenance Equipment	.12	.08	.20	.13	.16
Repairs and Maintenance Buildings and Miscellaneous	.12	.10	.06	.06	.09
Plant Administration	.33	.35	.19	.28	.34
Miscellaneous Plant Expense	.15	.23	.09	.12	.13
Depreciation—Aluminum Plant only	.30	.58	.16	.12	.10
Ingot Pouring Charge	—	—	.14	.16	.17
Total carried to Inventory Account	11.31	12.25	9.08	11.09	13.14
General Property Expense	.10	.16	.09	.14	.04
Proportion Administration and General Expense	.08	.35	.18	.33	.27
Idle Plant and Depreciation	—	.13	.16	—	—
Shut-down expense	—	.43	—	—	—
Special Depreciation				5.44	5.48
Cost before interest, taxes, etc	.18	1.07	.43	17.00	18.93
Interest (proportion)				.26	.24
Total Costs	11.49	13.32	9.51	17.26	19.17
*Average Price Invoiced to U.K. Govt. including escalation allowances				21.01	21.75
Profit on U.K. contracts before taxes				3.75	2.58
Proportion Income Taxes				1.00	.62
Profit on U.K. Govt. Contracts after Taxes				2.75	1.96
Percentage Profit, before Income Taxes, to Cost				22·0%	13·7%
Percentage Profit, before Income Taxes, to Selling Price				17·8%	11·9%
Percentage Profit to Sales after due proportion Income Taxes				13·1%	9·0%
*Base Price				17.5c.	16c.
Escalator Addition				3.51	5.75
				21.01c.	21.75c

The salient facts to be noted in the above certified breakdown of cost per pound is that in 1942 this amounted to 17·26 cents per lb. and 19·17 cents per lb. in the first half of 1943.

The net profit after payment of taxes on the United Kingdom deliveries in 1942 was 2·75 cents per lb. and 1·96 cents per lb. in the first half of 1943.

The Company profits per pound on contracts with the United States Government were substantially the same.

The profits shown are on United Kingdom deliveries of ingots. While a very large item, production of ingots is only part of the highly integrated company operations. Production of bauxite in British Guiana, transportation from there to Arvida, fabrication of ingots into many shapes and sizes are all part of the company business.

The Profit and Loss Statement for 1942 covering all business operations (including subsidiaries) does not show as favourable result to the Company. In 1942 the Company sold 671,181,572 lbs. (ingot and fabricated). The net profits after payment of taxes were $12,992,772.22. This would represent a profit of only 1·93 cents per lb. of aluminum sold as against 2·75 cents shown on production plant breakdown.

Aluminum was produced at Arvida in 1937 at a cost of 8·943 cents per lb. The cost figure of 9·51 cents given in the breakdown is the weighted average of the two producing plants of the Company.

It should be noted that these figures represent the cost at the producing plant. Before reaching the consumer, in normal times other costs are incurred. Sales promotion, advertising, commissions to canvassers and agents, research work, etc., must be paid for and should be included in the ultimate Company cost. These activities are carried on largely by Aluminium Limited and other subsidiaries of that corporation and therefore do not appear in the breakdown of the production costs.

Since sales to the public have practically ceased during the war and are confined to the Allied Governments, these expenses are to a considerable extent eliminated. The 1942 and 1943 figures are therefore a much truer index of the net profit to the Company than the 1937 figure.

2. *That the terms of the agreement between the Dominion Government and the Aluminum Company of Canada Limited concerning special depreciation on capital assets constituted a "gift" to the corporation.*

Mr. Coldwell's statement in regard to this as reported in *Hansard* at page 3685 is as follows:—

> It is to this giant trust that Canada has given, through permitting it to write off during the war the cost of its plant extensions and three-fifths of the new power plant at Shipshaw, what amounts to a bonus of $154,500,000 in one area on the Saguenay. In addition to the write-offs, under certain circumstances, and in some instances in one year they give further bonuses amounting to over $23,000,000, making in all a total of $177,000,000.

Again at page 3688.

> It is to this company that the governments of Canada, the United States, Great Britain and Australia are giving millions of dollars over and above the real value of the aluminum during the course of the present war. That is what the agreements really do.

First of all it will be profitable to consider what depreciation is. Several definitions were given to the committee.

For the purpose of the inquiry the following are the essential characteristics of depreciation:—

> It is an element of the cost of production whether or not and regardless of the extent to which it is recognized in the accounts. It is as much a production cost as are the materials and labour going into the product. It cannot be ascertained with precision as the future cannot be foreseen with certainty, yet it is a part of the cost of operation. Among the

causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand and requirements of public authority, and in some cases the exhaustion of natural resources. Annual depreciation is the loss which takes place in a year.

The principle of allowing depreciation as an item of cost is universally applied in every country which has an Income Tax Act. It has always been so recognized in Great Britain, the United States, Australia and Canada.

Every taxpayer, either in peace or wartime, is entitled to the benefit of the provisions of the Income War Tax Act or the Excess Profits Tax Act having to do with deduction from profits for depreciation. The owner of a taxi-cab, the operator of a commercial truck, the lawyer with a law library, the merchant with store equipment, the farmer with farm implements, the landlord as owner of rented premises, all are entitled to deduct from his earned profits an allowance for depreciation of his capital asset during the current year.

In normal times, depending on the type of construction and the nature of use, the prevailing rates of depreciation in Canada are:—

For buildings or structures of concrete or solid brick, etc., 2½% of cost value per annum.

Buildings or structures of wood, 5% of cost value per annum.

Machinery, furniture, equipment, 10% of cost value per annum.

The above are known as normal rates of depreciation. If, however, "machinery" which covers such items as trucks, automobiles, plant machinery, farm implements, etc., is used more than the normal period each day an accelerated depreciation is allowed annually. The rule of the Department of National Revenue has been that the owner of such "machinery" who uses his machinery on a double shift, may apply to have the annual write-off for depreciation increased to 15% of its cost value. If machinery is constantly in use for the full 24 hour period, the Department will allow the owner to write off the capital value at 20% per annum, or in other words, the total capital cost of the machinery may be written off in a period of five years.

It is essential to note that the value of the write-off for depreciation depends upon the earning of sufficient profits to permit of this being done. In other words, sufficient profits and depreciation must be found together before the right to depreciation is of any value to the taxpayer.

In dealing with the applications which came before it, the War Contracts Depreciation Board still had in mind largely the basic principle which governed the depreciation write-off under our Dominion Tax Statutes in peacetime, namely, the expected useful or productive life of the asset. In addition, Mr. Justice McTague, the Chairman of the Board, indicated to the committee that Canada's desire to encourage contractors to undertake the immense war production program was a factor taken into account by the Board.

The special agreement with Alcan did not increase the total amount of depreciation to be allowed upon the assets, but merely shortened the period in which this could be written off as against profits earned by the Company.

The agreement thus allowed the Company to include certain specified capital expenditures as an item of cost and to charge these against profits earned on war contracts in a period of high taxation.

To suggest, however, that the terms of the agreement with Alcan with regard to special depreciation constituted a "gift" of $154,100,000 would be to suggest that the Dominion Government makes a "gift" to every taxpayer of the amount he is permitted to write off against his profits by way of depreciation. To state the proposition is to point out its absurdity.

Under the terms of the agreement referred to Alcan was allowed to write off against profits in a period of 4½ years the following amounts, if expended, at the rate of 5½ cents per lb. of aluminum delivered under the contracts with the different governments in that period.

Production plant and machinery	$122,850,000
Shipshaw power project (60%)	41,250,000
Total	$164,100,000

The amount used by Mr. Coldwell was $154,500,000. The difference is in the allowance for contingencies. The subcommittee has taken the maximum amount.

Reference was also made to a further sum of $23,000,000. Mr. Justice McTague advised the committee that this was the total of applications made by the Company in the ordinary course to the Depreciation Board and was largely composed of amounts spent in the expansion of fabricating and foundry facilities. These applications were dealt with in the same manner and on the same basis as all other applications that came before the Board. The subcommittee considers that these do not justify any further comment and confines its consideration to the amount included in the agreement of December 31, 1942.

The above total of $164,100,000 does not include all capital investments made by the Company due to war expansion. Assuming that plant and power expansion due to preparation for war or war itself commenced in 1937 the Company had invested in fixed assets up to September 30, 1943, the sum of $277,000,000, not including lands or fabricating plant expansions.

The very real problem of post-war value and the profitable use of these capital investments is not confined to those covered by the agreement of December 31, 1942, and must be faced by the Company.

Approximately 70% of the amount included in the general expansion project would be expended for plant equipment which would come under the departmental designation of "machinery" and therefore would be subject to the provisions for depreciation applicable to "machinery".

Since the aluminum plant was operating on a 24 hour a day basis, these capital assets of "machinery" would have been normally written off by way of depreciation in five years. Under the special agreement referred to they would be written off in a period of roughly 4½ years. In other words, under normal conditions nine-tenths of the write-off on "machinery" under the special agreement or $77,400,000 would have been allowed by the ordinary application of the departmental procedure in 4½ years.

Assuming that the minimum rate of depreciation, 2½% per annum, was applied to the capital assets other than "machinery", the Company would be normally entitled in 4½ years to deduct from taxable profits the sum of approximately $6,000,000.

It follows, therefore, that on these amounts totalling $83,400,000. no special privilege of any nature was given the Company. The total to be considered, therefore, is reduced from $164,100,000 to $80,700,000.

The completion of the Shipshaw projects was the result of the officials of the Department of Munitions and Supply foreseeing the need of aluminum for aircraft production and their pressure on the Company as early as October 1940. The wisdom of this was proven by the later British and United States contracts. All the moneys advanced by the United States Government were required for plant expansion other than the Shipshaw power development. In fact the United States advances were not sufficient to meet the total outlay in plant expansion alone.

The Shipshaw power project was built during wartime, a period of abnormal construction costs, and a considerable portion of it was completed in winter, thus further adding to the normal cost of construction. The work was finished in a year and a half instead of a normal period of three years. The urgent need for aeroplanes on the part of the Allied countries made time the very essence, and economy of cost in construction quite secondary.

The actual cost of construction over the peacetime normal amounted to approximately $30,000,000. This wartime cost in excess of normal cost is clearly an item that should be allowed to be written off by way of special depreciation in the wartime production period. This then would further reduce the amount to be considered to $50,700,000.

So far this report, in dealing with the question of special depreciation under the agreement, has considered only special items which would affect the amount to be taken into consideration. The report has not dealt with the underlying principle recognized by the War Contracts Depreciation Board, to wit:

(*a*) The wartime nature of the production program.

(*b*) The postwar value of the capital assets.

It has already been pointed out that in the early thirties the Company with hydro power facilities at Chute a Caron of 260,000 h.p., and a contract with the Saguenay Power Company calling for 100,000 h.p. per annum, could not find productive use or an outside market for this power. The productive capacity of the Aluminum Company prior to the war was 45,000 metric tons. In 1934 the Company produced only 16,000 tons. From 1935 on the Company's production and markets expanded, but largely in anticipation of or the event of war.

As a result of the war expansion Alcan now has hydro facilities to produce 1,020,000 h.p. and plant facilities capable of producing 500,000 metric tons of aluminum. In 1943 the Company will produce twice as much aluminum as the whole world produced in 1934.

In addition, countries which were formerly markets for Canadian aluminum have themselves greatly increased their domestic production. World production of aluminum is now eight times 1928 production.

Again as a result of the great increase in world production of aluminum there has been an ever-increasing supply of secondary or scrap aluminum and this, of course, is always a competitive factor in the aluminum market. To illustrate, in 1938 the secondary aluminum industry in the United States, wholly independent, was supplying one-half as much to the domestic market as Alcoa. It is obvious, therefore, that these immense supplies of aluminum scrap will be a source of domestic supply in all countries at war for a considerable number of years.

It has been said that we are entering an age of light metals, but the light metals market is not confined to aluminum. Stainless steel, copper, brass, nickel, magnesium, molybdenum and plastics, and perhaps new alloys, will all continue to be vigorous competitors for the markets sought by aluminum.

The competitive use of these metals and materials is determined by the inherent characteristics of each, i.e., weight, tensile strength, corrosion resistance, etc., and by the competitive price of each.

The chief use to which aluminum has been put during the war is in the manufacture of aeroplanes. A great expansion of civil aviation is expected in the postwar years, nevertheless it is obvious that the demand for aluminum for aircraft will greatly diminish when the war is over.

The position of the Company will be the same with regard to power. The hydro expansion due to war will in all probability be idle for a long time because—

(*a*) It is not likely to be used by any other industry in the immediate district;

(*b*) There will in all probability be a marked reduction in aluminum production after the war;

(*c*) If rural electrification occurs there are not nearly enough people in the immediate district to consume any important quantity of surplus, (the ordinary domestic installation uses up an average of less than 2,500 kilowatt hours, and there are approximately 4,500,000,000 kilowatt hours available—enough for 1,800,000 homes).

(*d*) It will not be needed elsewhere for any foreseeable period of time. (Montreal is nearest important market and already possesses a large surplus of war developed power at much closer points.)

(*e*) It cannot be transmitted economically to Montreal (340 miles). The delivered cost would range from 18.50 to 21.50 per h.p. Beauharnois sells in large blocks as low as 12.15 per h.p.

In the opinion of the subcommittee the Company will do well if it can produce and find a market for the pre-war peak production figure 37,600 metric tons per year. The pre-war power facilities were more than sufficient for this amount.

It is, of course, hoped by the aluminum industry that new fields of use will open up, and in addition that present uses of aluminum will be expanded throughout the world.

Your subcommittee joins in this hope when it remembers that some 25,000 Canadians find employment in the industry at present, and that the welfare of a number of Canadian communities depends in a great measure on the success of the industry in finding markets for its products.

Idle plant and power facilities produce no profits but on the contrary involve the Company in the very considerable annual cost of maintenance. Insurance, repairs, skeleton staffs, carrying charges, etc., must be taken care of. In this sense they constitute a liability rather than an asset. The only escape is to tear down the excess facilities and this is by no means outside the range of possibility in the case of the Aluminum Company of Canada, Limited.

It is apparent, therefore,

(1) that the Aluminum Company of Canada, Limited, will be faced with an immense post-war problem of idle plant and power facilities, and

(2) that these idle plant and power facilities will represent a wartime capital investment of more than $200,000,000, an amount greatly in excess of the $50,700,000 under consideration.

The Aluminum Company of Canada Limited was not singled out in the matter of special depreciation. Many hundreds of like applications from other persons have been heard and dealt with by the War Contracts Depreciation Board. In the light of the evidence the Government would have acted quite unfairly had it denied equality of treatment to the Aluminum Company.

A well known example of the application of special depreciation is that of the grain elevator companies, including the pools, of Western Canada. During the wheat storage crisis these companies were requested to expand their storage facilities beyond normal requirements. They were allowed to write the capital cost of these off as depreciation against profits in a period of two years.

In the United States, the Government has been more generous than Canada in this regard. Capital investments of either "buildings" or "machinery" in wartime plants can be written off in a period of five years.

In the United Kingdom each case is dealt with on its merits and the arrangement can be included in the war contract or dealt with by the Inland Revenue authorities.

Suggested Alternative

Mr. Coldwell submitted that the Dominion Government should have taken over the plant and power facilities, expanded these as has been done, and made arrangements with the present management and technical staff to operate these as a Government owned industry.

The subcommittee points out that if such a policy were adopted the same reasoning would induce the taking over by the Government of other large industries producing vital war materials.

The subcommittee is not of the opinion that the Government is the most efficient or desirable agency to carry on the aluminum industry involving highly technical processes of production, and which after the war will require agencies throughout the world to find a market for its products.

Such a policy would have involved a capital expenditure by the Government of some hundreds of millions of dollars and left on its doorstep immense salvage problem after the war.

The United States Government has expended during the war some $800,000,000 in building aluminum production plants. These have been operated on a management fee basis. No public moneys have been expended in Canada.

The subcommittee was informed that the record of aluminum production in Canada as compared with that in the United States proves the wisdom of the policy adopted in Canada. This is the true test as increased production was the sole purpose of the expansion in both countries.

However, apart from these considerations such a policy has the fatal weakness of delay—in the production of aluminum.

It would, at least, have aroused a great public controversy. It would have involved the Government in discussions with the United Kingdom and United States Governments with regard to contracts already entered into. It would have necessitated negotiations with the Company or the taking of expropriation proceedings and the settlement of compensation. It would have involved the Dominion authority in a protracted discussion with the Province of Quebec over provincial rights.

The one vital necessity was the production of aluminum as quickly as humanly possible. The war situation in 1940, 1941 and 1942 was such that the possibility of defeat stared the democracies in the face. The chief lack was air strength. Delay in the production of aluminum might have been indeed fatal. The results speak for themselves. The Allies have air superiority in every theatre of the war and the Aluminum Company of Canada is supplying between 35 and 40% of the Allied requirements of aluminum.

Mr. F. H. Brown, Financial Adviser to the Department of Munitions and Supply, was asked by the subcommittee to estimate the danger of delay expressed in aeroplane production. His statement follows:—

> Assuming that Canadian aluminum went into British-produced Lancasters entirely, the Company's production in 1941 would have been sufficient for the output of forty-four a day, including 30% for spares, in 1942 sixty-nine per day, and in the first half of 1943, ninety-five per day. A month's delay in negotiations in 1941 might thus have made a difference of over 600 Lancaster bombers a month in 1942 and 1200 Lancasters in 1943.

3. *That labour conditions at the Company's plants were bad.*

Mr. Coldwell's statement in regard to this as reported in Hansard at page 3692 is as follows:—

> Suffice it to say, such relations (labour) have often been both scandalous and inhuman. Men in the pot room rarely last long amid the poisonous fumes, and the labour turnover in that part of the plant is appalling.

Your subcommittee visited Arvida and Kingston and had an opportunity of seeing the conditions under which the employees of the Company worked.

Arvida is a very attractive town with all modern conveniences. Its homes, schools, recreation centres, streets and general appearance are decidedly a credit to the community.

The Company has built a number of homes and leases or sells these to its employees on very reasonable terms.

Your subcommittee was informed that the Company has made every effort to make the working conditions in the production plant as free from danger and as conducive to health as possible. It recognizes fully the importance of this in gaining the goodwill and co-operation of its employees.

When the original Arvida plant was designed and built in 1926 a new type of pot was installed as a result of some years of investigation. The improvements lay in the decrease of exposure to heat and the arduous work formerly found necessary in aluminum plants.

Since 1926 many added improvements have been made. The installation of syphons for removal of metal, the elimination of the casting of hot metal into moulds in the pot-rooms, and the installation of other devices have steadily improved the working conditions.

Arvida has twenty-five pot-rooms of which twenty-one have been built since 1936. The Soderberg type of pot was installed in fifteen of these. Its advantages are complete pot enclosure and exhaustion of fumes. The Soderberg pot-rooms were designed with the assistance of ventilating experts and a system of forced air supply in addition to the hooded exhaust system was installed. Fresh air is forced into pot-rooms at the rate of 1,000,000 cubic feet per minute per pot-room. The capacity for ventilation equals 46 air changes per pot-room per hour. This system is in operation in twenty-one out of the twenty-five pot-rooms.

The subcommittee was given the following information with regard to labour turnover at the plants.

With the high rate of industrial activity arising from the war, there has been a marked increase in labour turnover, both in Canada and the United States. With the very rapid expansion of the plant at Arvida, difficulties with labour turnover have been experienced, but the rate of turnover in outdoor construction type of operations has been equal to, or greater than, the turnover on operating jobs. With the decrease in rate of expansion, the labour turnover has likewise decreased to the point where it is not abnormal in any way. For instance, the turnover rate for Arvida for the last four months of 1943 is given in the following tabulation along with the average turnover rates for all manufacturing industries in the United States, as released by the United States Bureau of Labor Statistics. It is interesting to note that the Arvida rate is below the United States average for each of the four months, and that the trend for both Arvida and for all industries is downward in about the same degree. The figures are given as turnover per hundred employees per month.

1943	Arvida Works	United States All Manufacturers
September	7·75	8·10
October	7·76	7·91
November	6·84	7·09
December	6·16	6·37

The Company maintains a staff of qualified doctors at its producing plants. The medical work includes pre-employment physical examinations as well as periodical examinations, X-ray examinations, first aid, sanitary and health inspection, etc. The subcommittee was informed that the health data collected by its staff shows that no effect harmful to the health of employees was traceable to working conditions.

Strong corrobration of this is found in the fact that insurance companies who imposed an added charge on premiums of $1 per $1,000 now indicate their willingness to eliminate this and to classify the aluminum industry on a minimum basic industrial rate.

The Company provides its workers with wash and locker rooms, many of which are furnished with ventilated lockers, drying rooms, shower baths, Bradley wash basins, etc. The subcommittee was informed that finally all such rooms will be equipped in like manner.

Neither on its visit to Arvida and Kingston nor in the evidence received did the subcommittee find any substantiation of the allegations made with regard to labour conditions.

Your subcommittee, impressed by the fact that the aluminum industry during this war period has given employment to 25,000 Canadians, considers it proper to draw attention to the importance of this industry in the Canadian national economy.

In all likelihood these 25,000 employees constitute with their families at least from 75,000 to 100,000 persons. In August, 1943, there were 23,446 employees with a payroll of $3,340,234.29 for that month. In addition, the communities in which they are living give employment to persons engaged in servicing of these communities. The Canadian railways employ a considerable number of men as a result of the activities of this industry. In fact, it is difficult to estimate the number of Canadians who directly or indirectly have benefited by the establishment of this industry in Canada.

The Canadian aluminum industry has shown that it can produce the best quality aluminum at possibly as low a cost as anywhere in the world. The combination of capital, management and labour engaged in the aluminum industry has performed what might be well described as an industrial miracle in production during the war period. This miracle has been achieved, so far as the financing of it is concerned, by British and United States Government orders.

Your subcommittee expresses the hope that the spirit of productive enterprise producing such excellent results in wartime may be continued in the post-war years, thus benefiting labour and the whole of the Canadian economy.

Mr. Powell in discussing the future of the industry stated that the greatest hope of employment of its production facilities in the post-war period lay in having free access to the markets of the world. He felt that given this opportunity the Canadian company could produce and sell aluminum in free and open competition with any other producer and secure a fair share of these markets.

He recalled that in 1932 at the time of the Ottawa conference he had informed the Government of that day that the industry desired no tariff protection of any kind, and stated that this continued to be the attitude of the industry.

4. *That the Aluminum companies of Canada were part of a world monopoly, and that the Government by its action had contributed to this monopoly.*

Mr. Coldwell made several statements in connection with this particular allegation. However, his viewpoint may be illustrated by the following quotations from *Hansard*.

At page 3684.

> The Aluminum Company of America controls 100 per cent of the domestic aluminum in the United States, and its Aluminium Limited through its control of the Aluminum Company of Canada, controls 100 per cent of the aluminum produced in Canada.

At page 3685.

> Aluminium Limited is the corporation through which the Aluminum Company of America enabled itself to co-operate with the international cartel which was promoted by its creature, Aluminium Limited, and under which Aluminum Company of Canada operates as its fully owned subsidiary.
>
> There are, as far as I am able to find out, few parallels, either in the United States or in Canada, of corporations which constitute such an entire monopoly of vital industrial and war material as these companies control. They are able to exercise price fixing to restrain

production, to control raw material and the necessary electric power to produce and manufacture aluminum and aluminum products.

For fifty years Aluminum Company of America, later, its creature, Aluminium Limited, and the latter's fully-owned companies together have obtained, and for nearly half that time maintained, complete control of one of the most profitable industries in the world.

Again at page 3687.

That while our people are called upon to sacrifice, and while Canadian boys are giving their lives in a great cause, this giant corporation is receiving profits and properties which will enable it after the war to maintain a monopoly which will dominate electric power resources and the production of aluminum on the American continent and to a large extent throughout the world.

Again at page 3688.

The lifelong policy of the aluminum corporation has been to maintain high prices for its product, the effect of which has been to restrict its use.

It secured agreements with three of its most profitable competitors not to supply bauxite to other producers or manufacture aluminum for periods of forty and fifty years. It undertook to tie up the principal water power companies in North America so that no competitor could obtain electric power for the manufacture of aluminum. This it succeeded in doing.

For example, on August 14, 1899, Alcoa entered into a contract with the Shawinigan Water & Power Company of Shawinigan Falls, Quebec, for the supply of power. Like its other contracts for power, this contract contained a restrictive covenant by which the power company agreed that it would not use its power for the manufacture of aluminum, or sell power to any manufacturer of aluminum other than Alcoa.

Contracts of exactly similar sort were made with Niagara and other power corporations, so that eventually Alcoa controlled power everywhere along the St. Lawrence in Canada and the United States.

At page 3690.

The result was the formation of the Alliance; the Alliance foundation agreement was executed in Paris on July 3, 1931, and about three months later it was duly incorporated in Switzerland with two Aluminium Limited employees as manager and assistant manager of the whole cartel. Price fixing and suppression of competition by the Alliance were made effective by three major devices: first, by fixing an Alliance buying price; second, by removing surplus stocks of aluminum from the world markets and, third, by the alleviation of production quotas.

And again.

Since it was unnecessary to sell any surplus on the world market, the buying price became the fixed minimum price for the world.

Your subcommittee concerned itself chiefly with matters purely Canadian and arising during the war period. It did not attempt to explore other than incidentally the history of the Aluminum Company of America (Alcoa). It did have before it the findings of fact and conclusions of law of the United States District Court in the case of the United States of America vs. Aluminum Company of America et al, filed in July 1942, and a study of the aluminum industry among others in the United States made by the Brookings Institution and published in 1938.

The case above referred to occupied the Court for a period of over two years. Some idea of the exhaustive nature of the inquiry is indicated by the fact that the Minutes of the Proceedings consist of 41,722 stenographic pages, and 1,803 exhibits aggregating 15,000 pages were marked for identification. The charges levelled against the defendants were substantially the same as levelled by Mr. Coldwell.

In fact Mr. Coldwell's allegations appear to be largely based upon the allegations made by the petitioner in that case, and your subcommittee is somewhat surprised that since the decision of the Court was filed in July 1942, Mr. Coldwell made no reference to the findings of the Court, a body fully competent and equipped to try the issues involved. The findings of fact and conclusions of law exonerated the defendants on every allegation contained in the petition. Aluminium Limited was one of the named defendants.

Your subcommittee is informed that the case has been appealed to the Supreme Court of the United States. It is apparent, however, that the decision of the United States District Court until changed on appeal must be given great weight because of the importance of the inquiry before that Court, and because of the undoubted competency of this particular tribunal to weigh the evidence submitted. Mr. Lipkowitz, who assisted in the preparation of the petitioner's case, assured the subcommittee that it could entirely rely on the integrity and competency of the Court.

The Brookings Institution is an independent economic research group, and the study referred to is contained in a book entitled "Industrial Price Policies and Economic Progress".

Alcoa has been since its incorporation in 1899 and until the outbreak of war the sole producer of aluminm ingot in the United States. Many other firms purchase the raw aluminum and fabricate it, but it can safely be said that Alcoa has occupied a very dominant position in the aluminum industry of the United States. Since the outbreak of war the Reynolds Corporation has built and is operating a production plant.

The Aluminum Company of Canada is the only Canadian producer of raw aluminum and as a result can be said to completely dominate the Canadian production field.

Domination is not, however, synonymous with monopoly. Domination may arise merely because no other individual or corporation sees fit to engage in an industry. Monopoly, however, possesses such an exclusive control that it can prevent others from engaging in an industry or can eliminate, absorb or completely control any competitors.

Monopoly is usually founded on exclusive control through basic patent rights or through the exclusive ownership of some essential entering into the production of a commodity or by agreement with others whereby the group may possess this exclusive control.

The United States District Court found that the basic patent rights obtained by Alcoa expired in 1909, and that at no time since, at latest June 7, 1912, did Alcoa monopolize, or restrain, or intend, or attempt or contract or combine or conspire to monopolize or restrain the production or sale of virgin aluminum.

It further found that in specific cases Alcoa has been ready to co-operate with other concerns considering the production of raw aluminum.

The decision further points out the competition which aluminum meets from many other metals and materials, chief among which are copper, steel, nickel, tin, lead, magnesium, glass and plastics. It draws attention too to the competition of secondary aluminum and products made therefrom.

It further states that the competition between aluminum and other metals and materials throughout its existence has had a substantial effect on the prices obtainable for aluminum and aluminum products. It concludes as follows:—

> The extent to which Aluminum Company of America has been successful in this competition is due to almost unceasing efforts to improve the quality and usability of aluminum, to prices that were competitive, and to a sales policy that has been intelligent and aggressive and backed by an unusual amount of engineering and technical service.

The study made by the Brookings Institution reaches the same conclusions. It points out that perhaps the greatest advantage that the Aluminum Company of America had built up in its first twenty years was that of technical personnel. To quote,—

> As the company gained in experience, its experts accumulated more and more detailed knowledge of what made for quality of product and economy of operation. And this knowledge long remained theirs alone. Especially in the earlier years, Aluminum Company men who were familiar with the technology of the new metal practically never left to take employment elsewhere.

In effect Mr. Coldwell charges that the aluminum interests in Canada are part of a world monopoly and have sought to and succeeded in monopolizing—

(*a*) the supply of raw materials,
(*b*) hydro-electric power,
(*c*) the markets of the world for aluminum.

(*a*) *As to Raw Materials*

The chief raw materials used in the manufacture of aluminum are bauxite, cryolite and fluorspar. None of these materials is found in Canada.

Aluminum is an element which occurs almost all over the world, and combined or mixed with other elements constitutes about one-thirteenth of the world surface. It is not found in its pure state but in combination with other elements. In most of these combinations the aluminum content is too small for economical extraction and the principal ore of commercial value is a light-reddish deposit known as bauxite. A rough measuring stick is that it takes four tons of bauxite to produce one ton of aluminum. This ore is found in many places in the world, chiefly in the tropical and sub-tropical areas.

Inserted here is a table showing the world production of bauxite in metric tons in the years 1934 to 1941 inclusive.

WORLD'S PRODUCTION OF BAUXTITE

(in metric tons)

Country	1934	1935	1936	1937	1938(a)	1939(a)	1940(a)	1941(a)
Austria	3,000	3,000	3,000	3,000	5,000	?	?	.....
Brazil	.....	.....	7,000	8,770	12,928	18,279	20,000	20,000
British Guiana	65,917	139,811	212,665	366,700	(b) 382,409	(b) 483,652	550,000	1,000,000
British India	18	7,484	3,702	15,393	15,005	9,121	?	?
France	528,400	512,800	649,500	688,200	682,440	680,000	700,000	500,000
Germany	6,560	8,547	12,425	18,212	19,703	135,000	135,000	135,000
Greece	.....	9,489	129,898	137,412	179,886	186,906	180,000	?
Hungary	184,991	211,079	329,091	532,657	540,718	570,170	560,000	600,000
Italy	131,266	170,064	262,246	386,495	360,837	483,965	380,000	380,000
Malaya	.....	.....	.....	19,305	55,965	93,740	63,787	?
Neth. E. Indies	.....	16,717	133,731	198,970	245,354	230,668	274,345	100,000
Roumania	1,500	6,218	10,829	10,701	11,807	10,460	?	?
Spain	300	.....	.....	.....	.....	?	?	?
Surinam	101,003	115,184	234,845	392,447	377,213	511,619	615,434	1,200,000
U.S.S.R. (a)	61,000	132,000	203,200	230,000	250,000	250,000	270,000	?
United States	160,371	237,666	377,976	426,977	317,015	381,331	445,958	900,000
Yugoslavia	84,828	216,197	292,174	354,233	396,368	318,840	260,000	400,000
TOTAL	1,326,000	1,787,000	2,865,000	3,850,000	3,850,000	4,370,000	4,500,000	5,500,000

(a) Partly estimated. (b) Exports.

The table indicates the wide diffusion of bauxite over the world and the practical impossibility of any corporation securing a monopoly of the source of supply of bauxite.

In addition, constant research work is going on to find methods of extracting aluminum from other deposits, and while not so far meeting with great success, it may be that in time the methods will be found to make possible the economical extraction of aluminum from these deposits.

It seems obvious that any company or individual planning to engage in the production of aluminum would make certain of two things—(1) a supply of electrical power, (2) a supply of bauxite.

The Aluminum Company of Canada owned extensive bauxite deposits in British Guiana and, in addition, leased certain other areas from the Government of that country. Prior to war expansion, the Company estimated that it had control of sufficient bauxite to take care of its requirements for a period of sixty years. As a result of its wartime production it now controls bauxite deposits estimated to take care of its requirements for a period of only six years. This is an illustration of the necessary but prodigal use of natural resources for war purposes. As a result of this depletion of their bauxite ore supplies, the Company will have to find and develop other sources for its bauxite requirements. Bauxite is much the most important base material used in the production of aluminum.

Cryolite is obtained by the Company in Greenland, fluorspar in Newfoundland and metallurgical and petroleum coke and pitch in the United States. These base materials are not sufficiently important to suggest a monopoly of the source of supply.

The aluminum interests in Canada have no monopoly or even dominant control of the source of supply of the base materials entering into the production of aluminum.

In dealing with the allegation that aluminum interests controlled monopolistically the supply of bauxite, the United States District Court found as follows at page 26:—

> Various aluminum companies of the world and some of the chemical companies in the United States and elsewhere own or mine extensive bauxite deposits. In addition, there are several bauxite companies which own bauxite deposits in Arkansas and mine bauxite therefrom which they sell to anyone desiring to buy.
>
> Bauxite has been found outside of the United States in practically inexhaustible quantities. Extensive deposits have been located, among other places, in British Guiana, Dutch Guiana, France, Jugoslavia, Greece, Hungary, Netherlands East Indies, and the African Gold Coast.

At page 245.

> The evidence does not establish a charge against Aluminum Company of America of violating the Sherman Act in any respect concerning the production, or sale in interstate or foreign trade or commerce, of bauxite.

(b) As to Hydro-electric Power

In order to secure the necessary evidence to weigh this particular allegation, your sub-committee had Mr. Brown, Financial Advisor to the Department of Munitions and Supply, Mr. G. C. Bateman, Metals Controller, Mr. H. J. Symington, Power Controller, and the officials of the company before it.

In 1899, as has already been stated, Alcoa established an aluminum production plant at Shawinigan Falls, Quebec. To guarantee the supply of the necessary electric power the Company contracted with the Shawinigan Water & Power Company for sufficient power to be delivered annually to supply its needs. Inserted in the agreement between the Company and the Shawinigan Water & Power Company is the following clause:—

> In consideration of the agreement by Aluminum Company of America that the power generated by the water privileges granted by this contract shall be used for the purpose of the manufacture of aluminum and such purposes as may be incidental thereto, and for lighting and heating the premises of said second party and for no other purposes, the Shawinigan Water & Power Company of Shawinigan Falls, Quebec, Canada, agrees that it will not furnish water or water-power to any other person, corporation or organization engaged in the business of manufacturing aluminum and further that said Shawinigan Water & Power Company itself will not use water or water-power for or in connection with the business of manufacturing aluminum during the continuance of this contract, or of any renewal thereof, it being the true intent and meaning hereof that with respect to the manufacture of aluminum the rights to be granted and conveyed unto the Aluminum Company of America shall be sole and exclusive.

In renewal contracts this clause was continued by a general reference to the original contract.

Apparently it was the practice of Alcoa at that time to insert such a clause in all contracts entered into with power companies. In the case before the United States District Court the allegation that these restrictive clauses indicated an attempt to monopolize hydro power was dealt with by the court. Its findings, as reported at pages 46 and 47, are as follows:—

> Aluminum Company of America has operated its Niagara Falls aluminum producing plant from 1895 to date with mechanical power leased from Niagara Falls Power company, or a predecessor corporation, under a series of contracts. These contracts, made between 1895 and 1905, are in evidence as Exhibits 188, 189, 190, 191, and 192. Each contained covenants that the lesser would not sell or lease power to anyone else for the manufacture of aluminum. The contract of which Exhibit 191 is a copy expired by its terms in 1920. The restrictive covenants of all of the other contracts were cancelled by mutual consent of the contracting parties in 1921 by a writing, of which Exhibit 1026 is a copy.
>
> There have been no restrictions upon the manufacture of aluminum at Niagara Falls by anyone since 1921. It was an oversight on the part of Aluminum Company of America that the restrictive covenants, in effect prior to 1921, and referred to in Findings of Fact No. 82, were not cancelled in 1911 or 1912 when the company cancelled certain other restrictive covenants not relating to water power, as more fully set forth in Findings of Fact Nos. 65, 66, 111 and 210. The last of the Niagara Falls restrictive covenants was cancelled twenty years ago.

It will be noted that the last of the restrictive clauses in contracts held by Alcoa in the United States of America were cancelled by mutual consent of the contracting parties in 1921.

The restrictive clause above quoted in the contract with the Shawinigan Water & Power Company was wholly inoperative during the whole period of its existence. Mr. Powell, President of the Aluminum Company of Canada Limited, gave evidence to this effect, and stated that the restrictive provision had never been relied upon by the Company, and that the Company had no intention of using the clause to restrict other companies from securing hydro power for the manufacture of aluminum. This evidence was uncontradicted, and your subcommittee accepts as correct the statement made by Mr. Powell.

Mr. Powell indicated, on behalf of the Company, that he was surprised at the importance attached to this particular clause, and since the Company had never cared to rely upon it he was recommending to his Company that by consent the clause be cancelled. Your subcommittee has since been advised that this has been done.

In addition to its contract with the Shawinigan Water & Power Company, the Company has, as already stated, contracted for the delivery of 100,000 h.p. per annum from the Saguenay Power Company situated at Ile Maligne, on the upper Saguenay. Finally the Company developed and owns the Shipshaw projects capable of developing a peak load of 1,020,000 h.p.

The Shipshaw power development is unfortunately situated too far away from the ordinary markets for electric power to make economical the transmission of power from the Shipshaw projects to these markets. The subcommittee was informed that the reasonable limit of economical transmission of electric power at present was 200 miles. The very heavy capital cost of installation of transmission lines and relay stations together with the loss of power in transmission, fix a definite limit for the economical transmission of electric power.

There are in almost every province of the Dominion and in Labrador immense resources of undeveloped hydro power.

Prior to the war Alcan controlled approximately 360,000 h.p. and at present controls 1,120,000 h.p. out of a total of 9,225,000 h.p. developed in Canadian hydraulic stations. The latter figure is less than 20 per cent of Canada's known hydro-electric potentialities. A further 3,000,000 h.p. can be developed on the St. Lawrence river alone. The Shipshaw power development because of its isolation is not a factor in determining the development of the St. Lawrence river power possibilities.

Mr. Symington, the Power Controller, pointed out that even if the power were capable of transmission from Shipshaw to the industrial sections of Quebec, the Company would be faced with the fact that the production of hydro power in these areas has been greatly increased during the war to serve war industries located there. This power will be available for peacetime industry and is considered more than ample to supply post-war needs.

The Dominion Government, through the Department of Munitions and Supply, and through its representatives on the Natural Resources Co-ordinating Board, became very much concerned in 1940 with the power situation in Canada, and particularly the power available for the production of aluminum. The available electric power resources were being strained to the utmost. As a result the Dominion Government, through its officials, was constantly in touch with the officials of Alcan for the purpose of persuading this Company to undertake the development of the Shipshaw power project.

Without this power development it would, of course, have been quite impossible for the Company to have undertaken the later contracts entered into with the British Government and the contracts entered into with the United States and Australian Governments.

In addition, the production of the required amount of aluminum under the earlier British contracts was obtained only by securing some power, under an arrangement with the Dominion Power Controller, from the Shawinigan Falls area. This power was badly needed in its own district for war industry, and again the officials of the Department of Munitions and Supply saw the great necessity of the development of the Shipshaw project.

All of the witnesses made it quite plain to the subcommittee that without being unduly pessimistic they could see no reasonable possibility of the immense electric power production at Shipshaw being used for a goodly number of years after the cessation of hostilities. They stated that allowing for great development in aviation and in the use of light metals, the history of the past and the development which has occurred in other areas during the war make it clear that it would be impossible to find for some years at least a profitable use or market for electric power produced at Shipshaw as a result of the wartime expansion.

The subcommittee finds that any individual or corporation desiring to engage in the production of aluminum will not be stopped by the lack of hydro power facilities, and that there is no basis for the suggestion that Alcan in building the Shipshaw project or in entering into contracts with other power companies, attempted to or did monopolize hydro facilities in Canada.

(c) *As to the Markets of the World.*

Aluminium Limited was incorporated in 1928 in consideration of the transfer to it of certain assets owned by Alcoa. The share capital of Aluminium Limited issued in payment therefor was distributed among the shareholders of Alcoa in a ratio of one share of Aluminium Limited to three shares held in Alcoa.

It should be noted that the shares in Aluminium Limited were issued to Alcoa but immediately transferred to individuals who were shareholders in that company. Obviously, if the shares were retained by the corporation, Aluminium Limited would have remained a wholly owned subsidiary of Alcoa. Corporations never die but in the case of individuals the reverse is true. It follows, therefore, that since death involves an estate, the payment of taxes and debts and the distribution of the residue of the estate among beneficiaries, a process of diffusion of holdings of share capital is inevitable. That has been the case in Aluminium Limited.

This matter of common ownership of stock in Alcoa and Aluminium Limited was gone into fully in the case before the United States District Court already referred to.

Its findings are reported at page 197.

> Immediately upon the distribution of shares in Aluminium Limited among the shareholders of Alcoa three stockholders of Alcoa owned in the aggregate 51.3 per cent of the stock of Aluminium Limited and the same percentage of the common stock of Alcoa.

At page 198.

> Alcoa distributed to its stockholders the stock of Aluminium Limited without any intention or understanding on its part or on the part of any of its principal officers or on the part of Aluminium Limited or on the part of its principal officer, nor was there agreement between any of them, nor does the evidence show nor is there basis for an inference that any other of the officers or any of the stockholders of either company had any intention or understanding, that there would result or would be exercised any common control of the two companies.
>
> The extent to which the common stock of Aluminium Limited is held by the large stockholders of Aluminum Company of America has been diminishing since June 4, 1928. This diminution inevitably must have occurred, and in future will continue to occur, by voluntary sales, from insolvencies, and as a consequence of death.
>
> The only date as of which complete lists of the holders of common stock in Aluminium Limited and Aluminum Company of America are in evidence is September 20, 1937.

At page 200.

> The minimum number of the defendants who held common stock in both Aluminum Company of America and Aluminium Limited, whose holdings of common stock of the latter company at the time, if joined together, would have constituted a majority of the then outstanding common stock of that company, was three on June 4, 1928, and eight on September 20, 1937; whereas, on January 2, 1939, if all defendants shown by the evidence on that date to have held common stock in both companies had joined together their holdings of common stock of Aluminium Limited,

their aggregate holdings of common stock of Aluminium Limited would have lacked more than 10,000 shares of being enough to constitute a majority of that company's then outstanding common stock.

At page 202.

> The evidence does not show, nor is there basis for an inference, that there has ever been any contract, combination, conspiracy, agreement, or understanding among the stockholders of Aluminum Company of America and Aluminium Limited, or any of them, concerning the voting of the stock of either company; or that in any instance two or more stockholders of either company have acted in concert, or pursuant to any contract, combination, conspiracy, agreement, or understanding, in or as to the voting of the stock held by them, respectively, in either company.
>
> The evidence establishes that at no time have the policies or activities of Aluminum Limited been controlled by any stockholder or group of stockholders in the exercise of a common control of that company and Aluminum Company of America. At all times the stockholders of Aluminium Limited have given the management of that company a free hand in the conduct of the business of the company and in the determinations of its policies.

The findings of the United States District Court as above set out were confirmed to the subcommittee by the sworn testimony of Mr. R. E. Powell, President of the Aluminum Company of Canada and a director of Aluminium Limited. He stated that at no time did Alcoa ever attempt to in any way influence or interfere with the policy or business of the Canadian Company.

Your subcommittee secured what information it could with regard to the Alliance Corporation of which Aluminium Limited was a member. It was found, however, that the two witnesses best equipped to give first-hand information with regard to this matter were not available, one being in Germany and the other in France.

Your subcommittee feels, therefore, that it is not in a position to pass final judgment on the operation of the Alliance Corporation or the association with that company of Aluminium Limited.

The word cartel is a word which is not in good repute in Canada. In Europe this apparently is not the case. There it has been considered an extension of corporate organization to permit of international trade and to prevent what might be otherwise chaos in the international markets. This was particularly true in the period of the thirties when international trading was handicapped by artificial trade barriers, by instability in the currencies of different countries and by an unnatural competitive situation in which governments of countries assisted their industries to find markets for their products. It is apparent, therefore, that more than one school of economic thought considers the cartel a natural growth of international trade. Mr. G. H. D. Cole, an English Socialist Economist, gives it as his opinion that it is a natural and inevitable step in the world organization of trade. Your subcommittee does not subscribe to this opinion and believes that the formation of international cartels will be inclined to be monopolistic in its tendencies and to destroy the value of true competitive factors.

Mr. Powell gave to the subcommittee considerable information with regard to the relationship of Aluminium Limited with the Alliance Corporation.

He pointed out that Alcan was producing aluminum in quantities greatly in excess of Canada's domestic requirements; that its markets had to be found overseas; that Aluminium Limited had established in many countries subsidiaries

or selling agencies seeking out markets for Canadian aluminum; that these markets were seriously threatened by the inclination of European aluminum producers to organize as a group with governmental support, and that Alcan was to this extent forced to recognize that either its markets would disappear or it must find a way to protect its position in these markets. By a series of conferences with the representatives of the aluminum producers a foundation agreement was entered into whereby each of the members of the group subscribed to a joint fund or pool and the group as such undertook to purchase from each member surplus aluminum which the member could not market through the ordinary channels. An agreement was entered into too to limit the production of the members of the group. In addition an agreement was reached as to the price at which the group would purchase aluminum from its members or in turn sell to its members. This foundation agreement was the basis upon which later the Alliance Corporation was incorporated under the laws of Switzerland. Aluminium Limited subscribed to approximately 28 per cent of the total stock. The other members were the aluminum producers of Great Britain, Germany, France, Italy and Switzerland.

Mr. Powell stated positively that neither under the agreement nor the Alliance Corporation was the price at which the members sold to the consumers fixed, or were the territories in which the product could be sold determined by the agreement or by the Alliance Corporation.

Due to the increase in world demand already referred to the operations of the Alliance Corporation wholly ceased in 1938. It is still in existence as a corporation holding some assets on behalf of its corporate members.

Prices.

One of the distinctive features of a monopolistic corporation is the maintenance of prices at an unfair level due to the monopolistic control of the market.

The record of aluminum prices in the United States and which are comparable in tendency to Canadian prices indicates that the aluminum industry has been able to, generally speaking, produce and sell aluminum at a constantly lowering price to the consumer.

In 1889 the average price of aluminum was $4.08 per pound, in 1893—0.78c per pound, and in 1896—0.48c per pound.

A table as submitted by the Company showing the current price of aluminum from 1900 to 1941 follows:—

	Cents		*Cents*
1900	32·00—33·00	1921	17·00—26·00
1901	31·00—33·00	1922	16·50—23·00
1902	31·00—33·00	1923	22·50—27·75
1903	31·00—33·00	1924	26·00—28·00
1904	30·00—32·00	1925	27·00—28·00
1905	33·00—35·00	1926	26·50—27·00
1906	35·00—38·00	1927	23·90—27·00
1907	36·00—50·00	1928	23·90—23·90
1908	22·00—34·00	1929	23·90—23·90
1909	22·00—24·00	1930	22·90—23·90
1910	22·00—24·00	1931	22·90—22·90
1911	18·50—22·50	1932	22·90—22·90
1912	18·75—27·12½	1933	22·90—22·90
1913	18·50—27·12½	1934	*19·00—23·30
1914	17·37½—21·50	1935	*19·00—22·00
1915	18·75—60·00‡	1936	*19·00—22·00
1916	53·00—67·00‡	1937	*19·00—22·00
1917	35·00—64·00‡	1938	*20·00—20·00
1918	32·00—33·00	1939	*20·00—20·00
1919	29·00—33·00	1940	*17·00—20·00
1920	22·00—32·75	1941	*15·00—17·00ø

‡ During 1915, 1916 and 1917 the Aluminum Company of America sold consumers on annual contracts at much lower than the open market prices. The averages of these contract prices are estimated at 32·00c in 1915, 34·00c in 1916 and 37·00c in 1917.

* 99%—virgin ingot.

ø Dec. 5th. 99% pig offered at 14·00c per lb.

Financial Results

Your subcommittee did not attempt to examine into the financial history of the United States company, Alcoa, other than to note the findings of the United States District Court as to profits made by that company. These were as follows:—

> The earnings of Aluminum Company of America in the 51⅓ years of its existence through 1939 have averaged approximately 10 per cent per annum on the capital employed in the business.
>
> The earnings of Aluminum Company of America have not been excessive, but have been reasonable, particularly in view of the hazards of its manufacturing and fabricating business, which necessitates a large capital investment in plant and equipment, the value of which is always subject to substantial risk of being, destroyed or largely dissipated by the discovery of new or improved processes, equipment or materials. Aluminum Company of America, during its existence, has paid out approximately one-half of its earnings in dividends to stockholders and has put back into the business an approximately equal share.

Financial statements of the operations of Aluminum Company of Canada Limited in the years considered material were filed with the committee. These were certified to as correct by Price, Waterhouse & Company.

A statement as to the year 1942 and the first half of 1943 is given at the end of this section. Shown thereon is the percentage of profits to sales. In 1942 the net profit after payment of taxes was 8·6 per cent of sales and 4·2 per cent in the first half of 1943.

In considering these results it should be noted that the company is a highly integrated one. The above percentages represent all the profits made on the whole operation of taking bauxite from the mine and processing it into the finished aluminum product. No intermediate or middleman's profit occurs as is the case in so many other industries.

On June 14 Mr. Coldwell charged the Aluminum Companies with making exorbitant profits through monopolistic control and that this was substantiated by the increase of capital assets.

One such statement was as follows:—

> By 1942 those assets had jumped to over $350,000,000 for Aluminium Limited alone.

The inference could be drawn that the amount of $350,000,000 indicated the capital gain in the years referred to.

The facts are that in 1935 Aluminium Limited had assets totalling $67,405,466 against which it had liabilities of $28,329,014. In 1942 its assets were $350,978,014 against which it had liabilities of $271,383,819 leaving a net worth of $79,594,195.

Aluminium Limited is a holding company. Its statement includes all subsidiaries, of which the Aluminum Company of Canada Limited is one. A very substantial portion of its assets is made up of the capital assets in power and plant facilities at Shipshaw and Arvida. The subcommittee has dealt elsewhere in this report with the post-war productive value of these, upon which their ultimate value depends. It is of interest to note that stock market quotations for the stock of Aluminium Limited are lower than in 1939.

ALUMINUM COMPANY OF CANADA LIMITED
(In thousands of Dollars)

	1942			1943 (First Half)		
	—		Percentage to Sales	—		Percentage to Sales
SALES—						
Aluminum and Aluminum Products		$147,534			$106,189	
Materials other than Aluminum		3,680			1,959	
Total Sales		$151,214	$100.0		$108,148	100·0
COST OF SALES:						
Aluminum Cost	$74,431		49·2	$60,385		55·8
Fabricating Cost	11,104		7·3	7,255		6·7
General Property Expense	952		·6	190		·2
Special Depreciation	38,918		25·7	28,836		26·7
Materials other than Aluminum	3,779		2·5	1,866		1·7
	129,184		85·3	$98,532		91·1
Less Customs Rebate	575	128,609	·3 85·0	278	98,254	·2 90·9
MANUFACTURING PROFIT		$22,605	15·0		$ 9,894	9·1
Miscellaneous Operating Income		243	·1		23	—
		$ 22,848	15·1		$ 9,917	9·1
ADMINISTRATIVE, GENERAL AND FINANCIAL:						
Administrative and General Expense	$ 2,809		1·8	$ 1,497		1·4
Net Interest Charges	1,760	4,569	1·2 3·0	1,135	2,632	1·0 2·4
Net Operating Profit		$ 18,279	12·1		$ 7,285	6·7
NON-OPERATING INCOME AND DEDUCTIONS:						
Income from Subsidiary Companies	$ 2,080		1·3	$ 166		·1
Miscellaneous Non-Operating Income	322		·2	186		·2
	$ 2,402		1·5	$ 352		·3
Miscellaneous Non-Operating Income	21	2,381	1·5	10	342	·3
Net Profit before Income Taxes		$ 20,660	13·6		$ 7,627	7·0
INCOME TAXES:						
Foreign	$ 241					
Canadian	7,427	7,668	5·0	3,098	3,098	2·8
NET PROFIT		$ 12,992	8·6		$ 4,529	4·2

5. That the whole transaction was from Canada's standpoint an improvident one.

Mr. Coldwell's statements in connection with this particular allegation are as follows:—

At page 3691.

> I submit that the agreement is improvident and against Canada's best interest.

At page 3693.

> I ask, is there an hon. member who will dare now to rise in his place and say that the deal with this giant unit of an international cartel is not, without exaggeration, a grave danger to the country and a public scandal?

It is the opinion of your subcommittee that no allegation could have less support from the evidence submitted to it. The evidence overwhelmingly establishes the very opposite. It is very doubtful if any agreement entered into during the war could be more "provident" or have made a larger contribution to the nation's war effort.

Mr. H. J. Symington, a witness of wide knowledge in such matters, gave the subcommittee his opinion that the construction and getting into production of the expanded power and plant facilities "constituted Canada's greatest contribution to the war effort".

The sole purpose was to secure an adequate production of aluminum in order to give to the United Nations sufficient air strength to achieve victory over the most powerful and dangerous enemies this country and its Allies have ever faced.

This purpose was achieved and the record of that achievement is a matter that all Canadians can well be proud of. The Governments of the United Kingdom, United States of America, Australia and Canada are to be warmly commended for recognizing the need and immediately taking the necessary steps to meet it. The Aluminum Company of Canada Limited, its management, its engineers, its technical staff and its employees deserve the highest praise for the manner in which they carried out their contribution to this achievement.

Who can say what victories have been won on land, on sea, and in the air, as a result of this flow of aluminum from Canadian plants? Who can say how much the war has been shortened by this contribution? Who can say that victory would be certain without it? And finally, who can estimate the number of Canadian and Allied lives saved as a result of sufficient air support?

It is in these results that the provident nature of the transaction is to be found.

For these reasons set out in the foregoing report your subcommittee finds that none of the allegations is substantiated by the facts.

ADDENDA

Since the drafting of this report the United States Government has announced the closing of a number of aluminum producing plants in the United States. It has been stated that production will be reduced by some 40 per cent. Certain groups are pressing for cancellation of the United States Government contracts with the Aluminum Company of Canada Limited.

This it will be noted has occurred before the attainment of victory, and in fact before the reported invasion on a grand scale of the European continent.

Such an announcement by the United States Government gives added weight to the appraisal of the position of the Aluminum Company of Canada Limited as set out in this report.

A list of the Exhibits filed with joint Subcommittees Nos. 2 and 3 is appended hereto.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

APPENDIX

List of Exhibits Filed with Joint Subcommittees 2 and 3

Number	*Subject*
1	Annual world production of aluminum by countries.
2	Estimated world production of primary aluminum.
3	Estimated production of aluminum: Axis countries and elsewhere.
4	Graph showing the mineral industry in 1939.
5	Canadian aluminum exports in pounds.
6	Summary of orders placed with the Aluminum Company of Canada by the Dept. of Munitions and Supply and War Supply Board since the beginning of the war.
7	List of indicated prices of fabricated items of the Aluminum Company of Canada.
8	Data on comparative prices of aluminum semi-fabricated products charged by Aluminum Company of Canada with lowest American and British supply sources.
9	Statement of profit on sales of aluminum and aluminum products to Canadian customers for year ending December 31, 1941 (adjusted).
10	Statement of profit on the sales of aluminum and aluminum products to Canadian customers for year ending December 31, 1942.
11	Statement of profit and loss on sales of aluminum and aluminum products to Canadian customers for the six months period ended 30th June, 1943, before interest, income and excess profit taxes, and provision of reserve against future depreciation in inventory values.
12	Costing memorandum: Schedule "E" of P.C. 6284, August 7, 1942—Complete Order in Council giving general conditions attached to various types of war contracts negotiated by M. & S. Dept.
13	Order in Council P.C. 4217, August 27, 1940, establishing the "War Contracts Depreciation Board".
14	Plan of "a certain plant" referred to in evidence re capital assistance to contractors.
15	Order in Council P.C. 7121, December 4, 1940, amending P.C. 4217, by defining the terms "war contract" and "depreciation".
16	Order in Council P.C. 8593, September 23, 1942, providing for Certificate of necessity before contractor can make his application.
17	Order in Council P.C. 1367, February 19, 1943, appointing Francis H. Black and James Gordon Fogo to War Contracts Depreciation Board.
18	Minute of meeting of Treasury Board (P.C. 89/4310), May 26, 1943, re personnel of War Contracts Depreciation Board.
19	Profile map of the immediate area of the Shipshaw development in its two phases (Chute a Caron and Shipshaw extensions).
20	Rough drawing of Saguenay-Shipshaw (not drawn to scale).
21	Heads of agreement between Aluminum Company of Canada Ltd., and H.M. Ministry of Supply.
22	Heads of agreement between Aluminum Company of Canada and H.M. Ministry of Aircraft production.
23	Aluminum sales contract No. 3 between Metals Reserve Company, Aluminum Company of Canada Ltd., and Export-Import Bank of Washington, dated 6th March, 1942, with two copies of explanatory letter attached.
24	Aluminum sales contract between Metals Reserve Co. and Aluminum Company of Canada, Ltd., dated May 2, 1941, and effective June 11, 1941.
25	Aluminum sales contract No. 2 between Metals Reserve Company and Aluminum Company of Canada, Ltd., and Export-Import Bank of Washington, dated 15th July, 1941.
26	Aluminum sales contract (4) between Metals Reserve Company and Export-Import Bank of Washington and Aluminum Company of Canada, Ltd., dated April 1, 1942.
27	Agreement between Aluminum Company of Canada, Ltd., and His Majesty's Government of the United Kingdom and Northern Ireland.
28	Agreement between the government of the Commonwealth of Australia and Aluminum Company of Canada, Ltd., dated July 24, 1941.
29	Agreement between Aluminum Company of Canada Ltd., and His Majesty's Government in the United Kingdom of Great Britain and Northern Ireland. Dated September 16, 1941.

30 Agreement between His Majesty's Government in the United Kingdom of Great Britain and Northern Ireland and Aluminum Company of Canada, Ltd., dated October 2, 1942.

31 Extract from "War Exchange Conservation Act" (1940-41 Statutes) Chap. 2, as amended by 1940-41, Chap. 29, Part III, Section 9.

32 Report of the War Contracts Depreciation Board on Aluminum Company of Canada, Ltd., expansion-report made to Ministers of Finance, of M. & S. and National Revenue, dated 27th June, 1942.

33 Agreement between the Government of Canada (Minister of M. & S.) and Aluminum Company of Canada, Ltd., dated 31st December, 1942.

34 Order in Council P.C. 11745, 31st December, 1942, authorizing the agreement listed as Exhibit No. 33.

35 Statement showing the production and domestic consumption of selected metals, 1939-1943.

36 Heads of Agreement between Aluminum Company of Canada Ltd., and the Air Ministry of the United Kingdom with letter of R. E. Powell attached.

37 Agreement between Aluminum Company of Canada, Ltd., and the Dominion Government re Kingston plant, dated September 13, 1940.

38 Exports and consumption of aluminum and other metals—Canada.

39 Exports and consumption—Canada (Complete extracts of aluminum facts from Exhibit 38).

40 Graph of world production of aluminum and other metals 1919-1935.

41 Graph: Index numbers of metal prices, 1913-1942.

42 Statement of operations—Aluminum Company of Canada, Ltd., for year ending December 31, 1942.

43 Statement of profit and loss—Aluminum Company of Canada, Ltd., for six months ended June 30, 1943.

44 Aluminum Goods Limited—statement of profit and loss for year ending December 31, 1942.

45 Aluminum Power Company—Statement of profit and loss for year ending December 31, 1942.

46 Chaguaramas Terminals Ltd.—Statement of profit and loss for the first financial period ending December 31, 1942.

47 Demarara Bauxite Company Ltd.—Profit and loss account for year ended December 31, 1942.

48 Newfoundland Fluorspar Ltd.—Profit and loss account: August 1, 1942 to December 31, 1942.

49 Roberval & Saguenay Railway Company—Profit and loss account for year ending December 31, 1942.

50 Saguenay Terminals Ltd.—Profit and loss account for year ended December 31, 1942.

51 Sprostons Limited—Income and expenditure account for year ended December 31, 1942.

52 Order in Council P.C. 7121, December 4, 1940, amending initial regulations relative to the War Contracts Depreciation Board.

53 Income Tax rates for corporations.

54 Excess profit tax rates applicable to corporations.

55 Financial statement of Aluminium Limited and fully owned subsidiary companies for year ending December 31, 1942.

56 Financial statements of Aluminum Company of Canada Limited and subsidiary Companies for year ended December 31, 1942.

57 Listing statement No. 1244—of the Toronto Stock Exchange re Aluminium Limited and other allied companies.

58 Findings of acts and conclusions of law by United States District Court re U.S.A. vs. Aluminum Company of America et al.

59 Financial statements of Aluminum Company of Canada Limited as at 31st December, 1938.

60 Financial statements of Aluminum Company of Canada Limited as at December 31, 1942.

61 Financial statements of Aluminum Company of Canada Limited and subsidiary companies as at 31st December, 1942.

62 Statement of crude aluminum production costs—Aluminum Company of Canada Limited for the year, 1928.

63 Aluminum Company of Canada Limited—Statement of crude aluminum production costs for the year, 1933.

64 Aluminum Company of Canada Limited—Statement of crude aluminum production costs for the year, 1937.

65 Report of the Conciliation Board re differences between Aluminum Company of Canada Limited and its employees at Arvida dated 13th November, 1941.

66 Statement showing the average annual income of wage earners in dollars per year for 1939, and the increase in 1943.

67 Photostatic copy of agreement made 23rd February, 1938, between Aluminium Limited and Aluminum Company of America.

68 Photostatic copy of agreement made the 24th February, 1938, between Alcoa Power Company Limited and Aluminum Power Company Limited.

69 "A special report to Executives" from "Business Week" of August 28, 1943.

70 Statement for 1939 to 1942 inclusive showing taxable income and income tax, excess profits tax and dividends paid by Aluminum Company of Canada Limited and Canadian subsidiaries.

71 Statement for 1939 to 1942 inclusive showing taxable income and income tax, excess profits tax and dividends paid by Aluminium Limited and Canadian subsidiaries.

72 Memorandum re policy of United Kingdom with regard to special depreciation.

73 Letter from Aluminum Company of Canada Limited re "transfer" of the Demerara Bauxite Company Limited from Aluminum Company of America to Aluminium Limited, and then to Aluminum Company of Canada Limited.

74 Copy of letter dated November 20, 1943, from Aluminum Company of Canada Limited to The Shawinigan Water & Power Company re cancellation of covenant prohibiting the latter Company from using, selling or furnishing of water or water power for use in the production of aluminum.

75 Letters from Aluminum Company of Canada Limited, viz.:

(*a*) dated November 19, 1943, reconciliating the cost of making aluminum in Canada in 1937 as given in Exhibit 64, and the figure mentioned by Mr. I. Lipcowitz.

(*b*) dated November 22, 1943, explaining how the cost of the experiments at Arvida with the dry ore process was divided between Aluminum Company of Canada Limited and Aluminum Company of America.

(*c*) dated November 22, 1943, re prewar and present price paid for coal by the Company.

(*d*) clipping from the *American Metal Market*, issue of November 5, 1943, entitled "The transformation of the aluminum situation".

76 Copies of Orders in Council P.C. 52/4640. P.C. 84/3368 and P.C. 1225 covering special depreciation allowances to grain companies.

77 Information on sales to Aluminum Company of America during 1931 and 1932.

78 Letter from Aluminum Company of Canada Limited re cases of silicosis among workmen in pot-rooms, with an article on "The prevention of silicosis by metallic aluminum" from *The Canadian Medical Association Journal.*

79 Tax rates at Arvida, Racine and Ile Maligne.

80 Copy of letter from Works Manager of the Shawinigan Falls Works to Dr. F. J. Tourangeau, re changes in pot-rooms operation and labour conditions.

81 Memorandum re working conditions and health of employees in Arvida pot-rooms with blueprint showing ventilation of typical pot line.

82 Information on development work done by Aluminum Company of Canada Limited looking toward the production of aluminum from materials other than bauxite.

FOURTH REPORT

January 26, 1944.

The Special Committee on War Expenditures has received from its Subcommittee No. 1 the following Report on Shipbuilding which it has considered and adopted as its Fourth Report to the House.

REPORT OF SUBCOMMITTEE NO. 1

Subcommittee No. 1 was appointed on the 22nd day of July, 1943, to inquire into the following:—

(*a*) R.C.A.F. services and aircraft production;
(*b*) Naval services and shipbuilding of all types;
(*c*) Contracts with civilian flying clubs, associations or companies;
(*d*) Airport, aerodrome and air force buildings construction, specifications and designs for such projects, and inspection thereof during construction.

Your subcommittee begs to present its first and final report of findings and recommendations with respect to Merchant and Naval Shipbuilding. There were 37 meetings held, 43 witnesses examined, and visits were made to some of the principal shipyards. Your subcommittee was not able within the time at its disposal to inquire into any other subject matter.

All of which is respectfully submitted.

V. J. POTTIER,
Chairman, Subcommittee No. 1.

1. INTRODUCTION

Everyone realizes that victory depends upon the output of the shipyards. The transportation of armed forces, supplies and food are vital and the Allies must have sufficient shipping with escorts to deliver these requirements and this demand was more acute during 1942 and 1943 due to submarine activities on the Atlantic.

The Canadian Wartime Shipbuilding Program has produced 232 cargo ships and over 400 naval ships, together with more than 3,000 smaller vessels and boats up to the end of 1943. It must be remembered that this was done in newly constructed or equipped shipyards with workers who were trained on the job in most cases. In December, 1941, the most optimistic view of a full year's production of 10,350-ton cargo ships for all Canada was estimated at 80. Actually 81 were delivered in 1942 and 137 in 1943.

In September, 1943, Hon. Sir Oliver Lyttelton, British Minister of Production, told a press conference in a tribute to Canada's war effort, that the Dominion was launching ships, exclusive of the larger types of warships, to an extent equal to the volume of launchings in Great Britain.

Your Committee desires to state its general impression that in both merchant shipbuilding and naval shipbuilding good work has been done and for this achievement great credit is due to Canadian workmen, technical skill, business management and departmental officials.

2. MERCHANT SHIPBUILDING

(a) *General*

At the beginning of the war there were no steel merchant ships being built in Canada and, as a matter of fact, very few had been built in the last fifteen years preceding the outbreak of war. In December, 1940, the United Kingdom Government surveyed Canadian productive capacity and decided that there were at that time three shipyards in Canada that had possibilities for constructing 10,350-ton cargo ships if they obtained some additional equipment and rearranged their building berths for this large type ship, namely,

Davie Shipbuilding & Repairing Company Limited at Lauzon, Quebec.
Canadian Vickers Limited, at Montreal.
Burrard Dry Dock Company Limited, at Vancouver.

The British experts had plans for a general purpose cargo ship known as the North Sands type and contracts were placed by the British authorities for a total of twenty-six of these 10,350 d.w. ton ships.

In the spring of 1941 the Canadian Government decided that in view of developments in the war the building program in Canada should be extended, and authorized the organization of a Crown Company, Wartime Merchant Shipping Limited, to carry out a new Canadian program. The British contracts were taken over by Wartime Merchant Shipping Limited and from that date the supervision of all merchant shipbuilding in Canada was undertaken by the new company. Effective the 15th of January, 1944, the Naval Shipbuilding program for large ships and the whole cargo shipbuilding program were merged under the supervision of the Crown Company, the name of which was changed to Wartime Shipbuilding Limited.

In May, 1941, a contract was placed with St. John Dry Dock and Shipbuilding Company Limited at Saint John, N.B., and in August, 1941, with Geo. T. Davie & Sons, Ltd., at Lauzon, for a total of five 4,700-ton Gray type ships. This ship is particularly suitable for trade into ports where the depth of water or other facilities are insufficient for the much larger 10,350 tonner. As this ship was expected to be extremely useful and as the capacity of the two yards was not very great, it was decided to construct a shipyard at Pictou, Nova Scotia, to provide additional berths for 4,700 tonners. In this yard, which is wholly owned by the Crown, the first keel was laid on February 28, 1942.

(b) *Description of Ships*

There are really only two sizes of steel cargo ships being built in Canada, namely, the 10,350 tonner and the 4,700 tonner. Canada's efforts have been to standardize not only in general dimensions but also in constructional detail as much as possible. Four types of the 10,350 tonner have been produced in Canada—North Sands, Victory, Victory Tanker and Canadian. The four types are as follows:

10,350 Tonner—North Sands

This was designed as an "open shelter deck" general purpose cargo ship. Length overall 439 feet, extreme breadth 57 feet, 2 inches, deadweight 9,300 long tons. Before any of the ships were built the design was changed to "closed shelter deck" which permitted increasing the deadweight to 10,350 long tons. The engine is triple expansion of 2,500 H.P., Boilers—Scotch Marine burning coal.

Victory Type

A modification of the North Sands in which the principal change was the use of oil-fired water tube boilers.

Victory Tanker

A modification of the Victory ship providing tanks for oil cargo.

Canadian Type

Same basic hull as North Sands but with improved crew accommodation and extra stiffening for decks to permit heavier deck loads. Boilers—Scotch Marine arranged for alternative use of coal or oil fuel.

All of these ships have the same engines and the speed of all is the same, which is 11/11½ knots loaded.

As an indication of what can be carried in a single 10,350 ton ship a miscellaneous list of cargo has been prepared and is shown as appendix "A" to this report.

4,700 Tonner—Gray Type

This is a very suitably designed ship for handling of bulk cargoes to and from shallow draught ports. It is a single deck ship, 328 feet overall in length, extreme breadth 46 feet 6 inches and loaded draught, 20 feet 10½ inches. Sea speed is about 10 knots, consumption about 15 tons best coal per day. Engine, triple expension 1,176 H.P. Boilers—Scotch Marine burning coal.

Your Committee discussed the advisability of designing a new 10,350 ton ship for the purpose of increasing the speed, and were informed there were a number of things that had to be considered in a change of speed—the delays in production, the necessity for greatly increased engine capacity with increased cost, the time element necessary to prove the new ship, the possibility of delays in obtaining new component parts. We suggest, however, that efforts should be made to ascertain if construction of such a ship for post-war use is practicable in Canada with a view to keeping as many yards as possible occupied to meet expected commercial requirements.

Further your Committee was advised that the 10,350 ton ship now being constructed was considered to be the most economical ship for post-war Canadian commercial purposes.

(c) *Location of Shipyards and Building Capacity*

After the Canadian Government undertook the extended program the number of shipyards was increased from three to ten for 10,350 tonners plus three for 4,700 tonners, that is to say, six Pacific Coast Yards and seven Eastern Yards, with the result that in September, 1943 there were 25,225 persons employed in the Pacific Yards and 20,550 in the Eastern Yards. Of the 13 yards in operation, two of the yards are owned by the Crown and one by the Canadian National Railways. All the others are privately owned.

The actual deliveries of cargo ships for 1941, 1942 and 1943, together with the estimated deliveries for 1944 are as follows:

	10,350 tonners	4,700 tonners
1941	1	0
1942	81	..
1943	137	13
1944	Est. 102	Est. 18

The opening of Canadian shipyards was not delayed to any extent for want of equipment. There were some minor delays in some of the yards for want of cranes but this condition was rapidly corrected. There have been no delays of any consequence owing to lack of material, equipment or components.

(d) *Construction Methods*

In peace time a ship is usually built from the keel up on its building berth, all parts being brought there separately. In war time, however, when the capacity of a yard depends not only on the number of building berths but also on the

speed with which these berths can be made free for another vessel it is necessary to have recourse to other methods of construction, the two most important of which are prefabrication and welding.

Prefabrication

The shipyards are using prefabricated parts to a limited extent only and nothing to compare with methods in the United States. The extensive use of prefabrication means large outlays for handling equipment as well as very large area of shipyard. The extra cost to equip and set up Canadian yards for extension prefabrication of parts would appear not to have been justified in view of the set up in Canadian yards and the number of ships to be produced.

Welding

We believe caution should be used in extending the amount of welding, as there seems to be quite a difference of opinion as to the efficiency of welding compared to riveting.

During the process of construction, all ships and their machinery and equipment are continuously examined by surveyors of Lloyd's Register of Shipping or British Corporation Register of Shipping and Aircraft to the end that the completed ship will meet the requirements of these societies for classification in their highest class. As an indication of the quality of the ships the attached copy of a letter from the British Admiralty is of interest. (*See* Appendix "B".)

(*e*) *Cost*

It was reported to the Committee that a price had been agreed upon by the British authorities for the 10,350-ton ships to be built in Canada when contracts were first given at $1,859,000 for a ship on the Pacific Coast and at $1,784,000 for a ship to be built in the St. Lawrence yards, and these prices were adopted as a base when the Canadian program was originated. There was no one in Canada who had experience or knowledge of what ships of this type would cost. It was further reported that after eighteen months' experience it was found that ships could be built in Canada for less than had been anticipated; that there was some variation in average costs as between the different yards, going all the way from $1,422,000 to $2,046,000 for the 10,350-ton ship, or an average on 112 ships costed as of October, 1943, of $1,632,000 per ship, and that it should be noted that the later ships had additional "extras to specifications" and for this reason as well as for increased labour and material costs, the average costs per ship between shipyards are not wholly comparable.

The most nearly comparable costs your Committee could get were those for a ship delivered in July/August, 1942, from each of eight yards and these costs ran from a low of $1,399,000 to a high of $1,969,000. Merely as an indication of the difficulty in getting costs strictly comparable between yards it should be noted that the highest cost given above was for the first ship delivered from the yard in question.

Reports available to your Committee indicate that the cost in Canadian shipyards, although higher than in Great Britain, compares very favourably with the cost in the United States shipyards.

The original contracts for cargo ships were for a fixed price but when it was found that a ship could be built cheaper than anticipated renegotiation of contracts was undertaken. At the time renegotiation commenced about 80 ships had been delivered and about 45 more were in various stages of construction. A flat fee of $50,000 for each North Sands ship was agreed upon and as to shipbuilding firms performing additional services, certain additional allowances were negotiated. This, it was reported to your Committee resulted in a reduction of approximately $300,000 per ship. These renegotiated contracts were made

retroactive and were effective back to the date of the first ship, with a resulting reduction in cost of between thirty and forty million dollars. In the Victory ships, which were not yet started, an estimate of cost was made based upon knowledge of cost in the North Sands ship and from this estimate a base was computed rêpresenting in general that part of the total cost of the ship over which the shipbuilder had some control. A fixed fee of $30,000 to $37,000 plus an incentive fee of 20 per cent of the amount of the actual saving on the above base price is allowed. An upper limit was set such that the fixed fee plus incentive fee could not exceed $50,000 for the lowest cost yard and $40,000 for the higher cost yards.

There is also variation in prices of the 4,700-ton ship from a low of $1,063,000 to a high of $1,854,693. In the yard, however, where the highest price obtained it was found this was the price of the first ship and the actual price of its eighth ship was $1,422,440 with an estimated price in the same yard of $1,235,279 for the tenth ship. The attention of your Committee was arrested by the higher cost prevailing at Pictou, N.S., for the 4,700 tonners and made strong representations in that regard and during the course of our inquiry we were pleased to note that the cost had been reduced. The costs given above do not include capital expenditures or special depreciation.

The total capital assistance to shipyards and component manufacturers amounted to $14,147,100, and the facilities thus provided are owned by the Crown.

The cost of material, labour and overhead is not kept as such for each ship built, at least it was not available to the Committee. We think that the efficiency of the various yards should be measured by comparing these three items and where out of line efforts should be made to ascertain the reason.

The cost of overhead should be noted carefully, and a ratio should be established between man hours and overhead that would be considered fair and proper for each yard. Excessive overhead is an expense that should not be passed by the department until carefully checked.

3. NAVAL SHIPBUILDING

(*a*) *General*

There had been practically no naval shipbuilding in Canada before the war and the situation in regard to Naval Shipbuilding was very much the same as that appertaining to Merchant Shipbuilding already referred to.

The Naval Shipbuilding Branch, formerly the Shipbuilding Branch of the Department of Munitions and Supply, was set up in March, 1940, for the purpose of handling the procurement, repair and conversion of vessels, barges, small boats and other related equipment for the Canadian and Allied Governments.

The functions of the Branch were to a certain extent modified by the incorporation of Wartime Merchant Shipping Limited, a Crown Company, already mentioned, and by the appointment of the Controller of Ship Repairs and Salvage, so that up to January 15, 1944, the Branch was in charge of:—

(*a*) All naval shipbuilding in Canada, other than the Destroyer program;

(*b*) All non-naval shipbuilding in Canada for the Canadian and Allied Governments, with the exception of the merchant shipbuilding program of 10,350 and 4,700 ton cargo vessels;

(*c*) The construction in Canada for the Canadian and Allied Governments of miscellaneous craft and related equipment such as small boats, barges, landing craft, bridge pontoons, etc.;

(*d*) The purchase and charter on behalf of His Majesty of existing vessels and the negotiation of compensation when title to such vessels is requisitioned;
(*e*) Capital Assistance granted for any of the above purposes;
(*f*) The administration of the Emergency Ship Repair Agreement and the negotiation of an occasional repair or conversion agreement outside of its scope.

In conformity with the set up of the Department of Munitions and Supply Branch does not deal with any questions of a technical nature concerning plans and specifications for the vessels being constructed under its supervision, this being the sole responsibility of the Navy or other Service or Government Agency requiring such vessels.

In addition to placing and negotiating contracts it is the duty of the Branch to determine the existence and adequacy of a source of supply in Canada for the vessels in question and principal components therefor and to follow up and expedite the delivery thereof.

As of January 15, 1944, the name of the Naval Shipbuilding Branch was changed to "Shipbuilding Branch", Department of Munitions and Supply.

The said Branch, under its new designation, will supervise not only the Naval Shipbuilding program of the Department as at present but also the Merchant Shipbuilding activities previously carried out by Wartime Merchant Shipping Limited under Agreement between that company and the Minister.

The Crown Company, presently known as Wartime Merchant Shipping Limited, will continue to operate but its name will be changed to Wartime Shipbuilding Limited as being one more in keeping with its new role which will be that of supervision, on behalf of the Minister and the new Shipbuilding Branch, of both naval and merchant shipbuilding programs exclusive of the "small-boat" program which will continue to be administered direct from Ottawa by the Shipbuilding Branch.

The Destroyer program which is being carried out in one yard is under the direction of the Controller of Ship Repairs and Salvage.

One of the most important functions of the Naval Shipbuilding Branch has been the naval escort vessel program, which program was divided into what is known as the old and the new programs. The old program was for the construction of single screw Corvettes, steam driven Minesweepers and Diesel driven Minesweepers, while the new program calls for Frigates, revised single screw Corvettes, lengthened single screw Corvettes, Algerine Minesweepers and Western Isle Trawlers, the two programs making provision for more than 400 ships.

As to ships of steel construction, other than naval escort vessels, orders have been placed since the beginning of the war for more than 125 ships, consisting of Tankers, Scows, Lighters, Barges, Tugs and the like.

The Branch also supervised the production of wooden naval ships, including Minesweepers, Fairmiles, Salvage and Supply Ships in a number of more than 150, besides a large number of Barges, small boats and miscellaneous related equipment.

The ships built have been for the Canadian, United Kingdom and United States requirements.

(*b*) *Description of Ships*

At the beginning of the war it was decided that the available shipyard facilities in Canada could be most efficiently used in the construction of the smaller type of naval ships, such as anti-submarine, escort vessels, minesweepers and many other small ships; the larger type of warship being constructed in Canada is the tribal class Destroyer.

It is impossible to describe all types of naval ships built in Canada as there are too great a number. We, therefore, will confine ourselves to a brief description of some of the principal types of naval vessels now built in Canada.

Tribal Class Destroyer

This is the most modern type of destroyer and the largest naval ship, the construction of which was ever attempted in Canada.

Single Screw Corvette

This is probably the most outstanding type of naval ship built in Canada. It was largely due to the good work of Canadian built corvettes that the battle of the Atlantic was not lost in the years 1941 and 1942. This ship, the most up-to-date version of which is the revised single screw corvette, is 190 feet long by 33 feet wide and 17½ feet deep, carries depth charges and sufficient armament to successfully engage a submarine whether submerged or on the surface.

Frigate or Twin Screw Corvette

This new type of naval escort ship is an enlarged corvette with some of the features of a destroyer. It is approximately 300 feet long, faster and carries more armament than the standard corvette, but it is less costly than a destroyer to build and operate and takes much less time to construct. This ship is well suited for the protection of convoys and its speed and armament enables it to successfully combat surfaced submarines.

Minesweepers

There are several types of this vessel built in Canada, both of wood and steel, namely: the Bangor, the Western Isle Trawler, the Algerine and Wooden Minesweepers 105 and 126. The Bangor was the first type of minesweeper built in Canada, is either steam or diesel power.

The Western Isle Trawler is a replica of an English Fishing Trawler which did such good work in the Battle of Britain, is somewhat smaller than the Bangor.

The Algerine is the largest and most modern type of Minesweeper built in Canada, is a twin screw steam driven vessel, 225 feet long by 35½ feet wide and 16 feet deep. This ship together with the Bangors is also quite suitable for escort and anti-submarine purposes.

With the advent of the magnetic mine, the construction of 105′ minesweepers was recommended in Canada. These vessels were built on both the East and West coasts and have proven very suitable for their purpose. Recently the construction of a slightly larger (126′) and improved vessel of this type has been recommended.

Fairmiles

This ship, of wooden construction, 112 feet long and powered by twin gasoline engines is suited for inshore anti-submarine work. While it is mostly used along the coast it is nevertheless a seaworthy ship and since the beginning of the war a large number have been built.

While it may appear that the construction of so many types of vessels would tend to lead to confusion and delays, your committee feels that the programs generally speaking have been well co-ordinated, there being at most a slight overlapping of construction programs in yards of the same class.

Yards and Building Capacity

(c) Canadian shipyards presently engaged on naval ships can be divided into four groups; i.e., the major steel shipyards, of which there are 14; the smaller steel shipyards, of which there are 5, and both small and large wooden shipyards, of which there are 62 throughout Canada.

Of the 14 major steel yards, one is on the West Coast, five in the Great Lakes area, four on the St. Lawrence River, one on the East Coast, and three are outfitting yards, only one being situated in each of the Great Lakes, St. Lawrence and East Coast areas.

The three outfitting yards, as well as one building yard, are Government owned; two more, although privately owned, are operated on behalf of the Government by a Crown Company, Quebec Shipyards Limited. The balance of the yards are privately owned and operated.

At the beginning of both the old and the new program great difficulties were experienced and tremendous obstacles had to be overcome. The ships were of a new type, with little previous experience on the part of anyone. Besides this, there was continual change in equipment and design to meet new and developing war conditions. Your committee found that some yards were given contracts for more ships than they were able to produce in the time allotted, bringing about some confusion both on the part of the management and labour. There are 26,687 persons employed in shipyards carrying out the naval escort program and other steel naval ships.

The actual deliveries up to January 1, 1944, of Naval Escort Vessels, together with other vessels of steel construction, have been substantial in number.

The committee found that as far as possible each yard is now employed in turning out ships of the same type.

A negotiations division of the branch has been set up to solve the most serious difficulty of obtaining the required delivery of component parts for naval escort ships; the principal reasons for delays were:—

(*a*) All the usual sources of supply were overloaded and the various shipbuilders were not in a position to create new ones.

(*b*) Shipbuilders building the same type of vessel and requiring the same type of equipment did not always place their orders for such equipment with the most suitable manufacturer. This tended to slow down production because there was no co-ordination of the production efforts of the various plants which were supplying equipment for these vessels.

(*c*) Shipbuilders often neglected to place their orders for component parts with the manufacturers until it was too late to obtain the required deliveries.

(*d*) Many components which had been manufactured in Great Britain or the United States only had to be manufactured in Canada and it was necessary to create sources of supply therefor.

Your Committee has not investigated ship repairs. It should be noted that a number of yards are engaged either solely or principally in this type of work, and also that at various times yards have been changed over from cargo to naval shipbuilding and vice versa.

Contracts

(*d*) Your Committee examined the method of placing contracts for naval vessels costing more than $10,000 and the basis under which such contracts were finally placed.

The officials of the Naval Shipbuilding Branch indicated to the Committee that contracts for all ships in the above mentioned new program were negotiated on the basis of actual cost plus a fixed fee per ship, plus in some cases a bonus for either quick delivery or saving in cost.

The Committee was advised that in some cases this led to higher cost in the early stages but when higher output per man hour had been achieved cost came down.

It was contended that many of the companies undertaking naval shipbuilding were companies which before the war were doing a relatively small ship construction business compared with the war requirements of to-day and the size of the present operations impose a severe strain on their financial resources. It was further contended that the complexity of naval shipbuilding made it difficult for shipbuilders to make accurate estimates and that shipbuilders were forced to quote prices high enough to protect themselves against contingencies or later to ask the Government to revise prices.

The Committee was also informed that these same problems have been dealt with in much the same way both in the United States and in Great Britain, where the builders of warships have had a great deal more experience than their counterparts in Canada.

Your Committee has ascertained from officials that the fixed fee is to be approximately equal to five per cent of the estimated cost of naval ships and that it can be increased by way of a bonus for reduction in such estimated cost with a maximum fee plus bonus of approximately seven and one-half per cent. While your Committee does not generally approve the principal of cost plus contracts and thinks they should be avoided wherever possible, it is considered that under the circumstances and in view of the production and technical difficulties involved, as well as the unsatisfactory nature of the type of fixed price contracts with escalator clauses previously used there was justification for the procedure followed. Your Committee nevertheless feels that as soon as circumstances justify it the placing of contracts on a fixed price basis should be resumed.

Construction Methods

(*e*) In the case of naval vessels, by far the greater part of the work is in the outfitting and is done after the ship is launched. This greatly reduces the amount of prefabrication which it is possible to do. It also increases the difficulty of the work as the working space is smaller than in the case of cargo ships for example.

Naval vessels are virtually custom built and your Committee heard a great deal about rigid inspection requirements. Some of the shipyards seem to feel that inspection was sometimes too rigid. Your Committee considers, however, that too great care cannot be taken to produce the best in quality. We did not find any example of quality being sacrificed for quantity.

COST

Your Committee found that cost on the same type of ship varied in different yards, depending largely upon the efficiency of the yard in question. We were advised that owing to the fact that until recently all naval shipbuilding contracts were on a fixed price basis, no general audit of contractors accounts had taken place.

The Committee was not able to compare the efficiency of all the various yards as no breakdown of overhead, man-hours and material was available.

Under the new cost-plus fee system this information should be made available and the ratio for the purpose of comparison between yards must be watched carefully.

The Committee examined the situation at the shipyard owned and operated by the Toronto Shipbuilding Company Limited, a Government owned company since October, 1941. Since that time changes have taken place in the management, the latest change being in the month of August, 1943.

This yard is engaged in the production of a substantial number of Algerine Minesweepers and it was apparent from results obtained that the situation had not been satisfactory. The costs were in excess of other yards, and while the construction of hulls had proceeded at a fair rate of speed outfitting was lagging

and deliveries were not up to schedule. The Committee heard several witnesses and also visited the shipyard. The Committee made efforts to compare the performance of the Toronto Shipbuilding Company Limited and the Port Arthur Shipbuilding Company Limited, which companies were building ships of similar type. It was possible to obtain comparative costs on a few ships and the figures given were those provided by each yard and not the result of a uniform audit.

The Committee feels however that the overhead and labour costs were excessive in the Toronto yard compared with privately operated yards in the same area constructing the same type of ship.

4. LABOUR

Your Committee visited several of the Eastern shipyards and spent considerable time in study of what could be done to maintain and increase the supply of labour as well as make the best use of same in shipyards.

In all of the yards it has been necessary to employ labour that had had little experience in shipbuilding and most of it had to be trained for the purposes required. There has never been any great deficiency of labour in the yards, although there has been a shortage of trained labour. We found a general willingness on the part of labour to learn new trades as well as co-operation on the part of management and Government-training schemes to bring this about. There were relatively few women employed and if any further extension took place in the shipbuilding program this is a source that could be investigated.

We found evidence of absenteeism of substantial proportions and the following table shows same from September 26 to October 9, 1943:

AVERAGES

	Mon.-Fri.	Saturday	Daily Average
Western Yards—			
Burrard North	10·3%	16·0%	11·3%
Burrard South	10·6	17·0	12·5
North Vancouver	8·1	13·0	9·1
West Coast Ship.	8·5	14·0	9·7
Victoria Mach.	8·2	11·5	9·9
Prince Rupert	8·6	11·5	9·0
Eastern Yards—			
United Shipyards	11·8	18·0	12·8
Marine Industries	7·4	16·7	9·0
Davie Shipbuilding	11·0	16·0	11·8
St. John Dry Dock	10·6	15·0	11·3
Foundation Maritime	15·2	12·5	14·7

There are a number of reasons given for absenteeism, namely, income tax and compulsory saving deductions, particularly on overtime, weather conditions, physical disability, home interest, etc. A large number do not seem to believe that they will obtain any benefits from the compulsory saving deductions and greater efforts should be made to explain the deductions as well as rates of income tax. We suggest that some plan be worked out providing for written evidence delivered to workmen showing amount of savings portion of his earning as well as income tax.

It is important not only that wage rates be as near uniform as possible between different yards in the same area but that occupational classification be clearly defined. There were delays in upgrading in certain yards which will be largely corrected under the recent direction and findings of the National War Labour Board setting out a schedule for such upgrading.

All major yards have a personnel manager and in some of the yards their work is very effective. There are some yards which do not fully recognize the importance of a good personnel department and in some cases the personnel department has not sufficient authority. Your Committee believes that a

properly qualified personnel department with adequate support from management and labour can assist in bringing out improved relations between labour and management.

Piece rates are in effect on riveting in practically all yards and to a lesser extent on welding. A recent direction and findings of the National War Labour Board calls for the setting up of a committee to study the piece work rates in existence in the Eastern shipyards with the object of establishing as much uniformity as possible and fair and reasonable rates.

The Committee was not able to compare the number of man-hours used in constructing ships in different yards as records of such were not available.

The number of man-hours has a direct bearing not only on the cost of the ship but also on the length of time in which the ship is built. It is therefore essential to keep a close watch on this item.

A shipyard safety code has been prepared and been made available to shipyards. The carrying out of the code is on a voluntary basis and as a result it is put into effect only in varying degrees in the different shipyards. We suggest that somebody be empowered to enforce minimum safety standards in all shipyards.

5. MANAGEMENT

The shipyards are operated under two plans, the first being private ownership of the yards and the second Government owned yards.

The success of each shipyard depends largely on its management and organization.

There is an optimum number of men that can be usefully and efficiently employed per berth in any given yard. Where the quantity of ships to be delivered is the only consideration this number can be exceeded with the penalty of increased cost of ships. The question of urgency of need for ships should decide whether the yards be operated at maximum efficiency or maximum production.

RECOMMENDATIONS

1. Greater efforts should be made to obtain comparative data on man-hours, overhead and cost of material for the purpose of measuring the efficiency of each yard as to production and costs.

2. Each yard should be enabled to specialize upon one type of ship.

3. That as soon as possible all contracts be placed on a contract fixed price basis.

4. That care be taken to carry only supplies necessary to complete programs and that minimum of supplies be left on hand when Government shipbuilding ceases.

5. In view of the degree of absenteeism disclosed by the evidence, your subcommittee recommends that the method of imposing income tax on workers and the procedure with regard to furnishing the worker with full and speedy information with regard thereto, be reviewed for the purpose of discouraging unnecessary absences from work.

6. That standard minimum safety regulations should be again reviewed.

7. That the supervision of all shipbuilding (both merchant and naval) be placed under one direct head in order to have unified control and proper allocation of all requirements.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

APPENDIX "A"

One 10,350-ton ship can carry in one trip, according to information furnished by Wartime Shipping Limited:—

2,850 tons food.

Enough flour, cheese, bacon, ham, canned and dried goods to feed two hundred and twenty-five thousand persons in Britain one week.

2,150 tons steel and other war metals in slabs and bars.

Enough motorized equipment, Bren gun carriers, trucks and motorcycles to equip a full infantry battalion.

1,900 tons bombs—enough to load 950 medium bombers for attacks on western Germany or to load 285 heavy bombers for attacks on Berlin.

Enough lumber, plywood, wallboard and nails to build 90 four-room or row of dwellings nine blocks long.

Two complete bombers stowed on the after deck and enough aluminum in holds to build three hundred and ten medium bombers or 640 fighters in England.

APPENDIX "B"

The Secretary of the Admiralty,
London, S.W. 1,
Quoting P (L) 2002/43

Admiralty, S.W. 1,
3rd September, 1943.

The Secretary,
British Admiralty Technical Mission.

My Lords have read with great interest a report by her master, of the torpedoing of the ..... Severe damage was sustained in the region of No. 2 hold, much debris and cargo, including bombs and shells was thrown on deck, the bridge was washed overboard, and the ..... was enveloped in smoke and fire. The crew abandoned ship, but when the flames had subsided, Captain ..... with a few volunteers re-boarded her, and after examination decided to take her on. She was eventually berthed after a slow passage.

2. I am to state that, in view of the rough treatment received it is considered that the ship behaved magnificently and to request you to convey to her builders, Messrs. Burrard's Shipbuilding and Drydock Co. Ltd., Vancouver, their Lordships' appreciation of the fine craftsmanship which must have been put into her construction.

BY COMMAND OF THEIR LORDSHIPS,
(Sgd.) A. S. Lemaire.

APPENDIX "C"

ADMIRALTY WHITEHALL

16th March, 1943.

Dear Mr. Carmichael,

Before you return to Canada I should like you to know how extremely grateful we are for the magnificent shipbuilding effort which Canada has put forward in this war. In particular, your corvette production has been invaluable and in the hands of the Royal Canadian Navy they have played a very considerable part in the battle of the United Nations against the U-boats.

In spite of all that has been done in Canada and the U.S.A. and in this country the escort position, as you know, remains extremely serious and the need for additional ocean-going anti-submarine escorts is both very great and very urgent. Anything therefore that you can do to speed up or expand, the output of escorts in Canada will be a first class contribution to the problems that face the United Nations at the present time. We always look to Canada not only with deep gratitude, as I have already mentioned, but also with confidence inspired by your fine achievements in the construction of ships.

Believe me,

Yours very sincerely,

(Sgd.) A. V. ALEXANDER.

H. J. Carmichael, Esq.

FIFTH REPORT

January 26, 1944.

The Special Committee on War Expenditures begs leave to present the following as a FIFTH REPORT.

1. A copy of the Minutes of Proceedings of your Committee is tabled herewith.

2. Your Committee is of the Opinion that its work should be continued, and recommends that a Committee on War Expenditures be appointed promptly at the next session.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.