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SPECIAL COMMITTEE
ON
DEFENCE EXPENDITURE

Chairman—Mr. DAVID A. CROLL

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 2

THURSDAY, DECEMBER 6, 1951

WITNESSES:

Mr. M. W. Mackenzie, C.M.G., Deputy Minister, Department of Defence
Production.

Mr. R. B. Bryce, Assistant Deputy Minister, Department of Finance.

OTTAWA
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1951

MINUTES OF PROCEEDINGS

THURSDAY, December 6, 1951.

The Special Committee on Defence Expenditure met this day at 11 o'clock a.m. Mr. David A. Croll, Chairman, presided.

Members present: Messrs. Balcom, Blanchette, Campney, Cavers, Churchill, Croll, Drew, Gauthier (*Portneuf*), George, Henderson, James, Jones, Macdonnell (*Greenwood*), MacDougall, McCusker, McIlraith, Pinard, Power, Quelch, Stick and Wright (21).

In attendance:

From the *Department of Defence Production*: Mr. M. W. Mackenzie, Deputy Minister, Mr. T. N. Beaupre, Special Assistant, Mr. G. W. Hunter, Executive Assistant, and Miss Ruth E. Addison, Administrative Assistant.

From the *Department of Finance*: Mr. R. B. Bryce, Assistant Deputy Minister.

From the *Department of National Defence*: Mr. C. M. Drury, Deputy Minister, and A. S. Duncan, Deputy Minister's Secretariat.

The Comptroller of the Treasury, Mr. B. G. McIntyre.

As agreed at the last meeting, Mr. W. M. Mackenzie was called. He read a prepared statement and was questioned.

Copies of his brief (departmental chart attached) were distributed.

He filed with the Clerk for the information of the Committee two departmental documents identified as follows:

1. Manual of Departmental Procedure (Defence Production) for the guidance and instruction of the staff (to December 1, 1951).
2. Book of Standard Forms respecting contracts.

A discussion took place with respect to the tabling of information. It was agreed to follow the procedure in relation thereto decided upon at the first meeting of the Committee.

Mr. R. B. Bryce was then called. He made a brief statement on the role of the Treasury Board and the control of expenditure. He undertook to send copies of his statement for distribution.

Mr. Bryce also undertook to supply the names of those composing the Treasury Board.

A discussion arose as to the date of the next meeting.

After further discussion, Mr. Drew moved "that when the Committee rises this day, it stands adjourned until Friday, December 7, at 11 a.m."

The question being put, it was resolved in the negative.

The Chairman assured Mr. Drew that his request for an early meeting would be taken into consideration by the Sub-committee on Agenda.

At 1.20 o'clock p.m., the Committee adjourned to the call of the Chair.

ANTONIO PLOUFFE,
Clerk of the Committee.

EVIDENCE

December, 6, 1951.

11:00 a.m.

The CHAIRMAN: Gentlemen, I see a quorum. We have Mr. Mackenzie and Mr. Bryce here, and I would ask you to allow Mr. Mackenzie make his presentation and then questioning will be open to you.

Mr. M. W. Mackenzie, Deputy Minister, Department of Defence Production, called:

The WITNESS: Mr. Chairman and gentlemen:

The origin of the Department of Defence Production lies in the decision of the government made just before the last war to embark on a policy of civilian procurement of the requirements of the three armed services. That policy has been consistently followed since that time, and now finds its expression in the existence of the Department of Defence Production. It may, however, be well to review briefly the various organizational developments in the carrying out of this policy, in order to clear up any misunderstandings that may exist regarding the relative positions of the new department and the Canadian Commercial Corporation.

It will be remembered that the Department of Munitions and Supply handled the procurement, not only for the Canadian forces, but also for the United Kingdom, the United States, and for other allies to the extent that these countries purchased in Canada. In addition, the Department of Munitions and Supply was responsible for the supervision of the mutual aid program. The Department of Munitions and Supply operated under a combination of the Special Act, which created the department, and the War Measures Act, but the important point is that it operated under special emergency legislation and that to carry out its functions it had extraordinary powers, including those to command production, to determine priorities, and to renegotiate contracts into which it entered. In the early stages, the requirements of other countries in Canada were essentially warlike stores, and were of substantially the same type as the goods being purchased by the Department of Munitions and Supply for the Canadian services. However, as the years passed, procurement in Canada by other countries included more and more goods of a civilian type. It was therefore decided that it was not appropriate to apply the special purchasing procedures that had been developed for the procurement of munitions and general service supplies to transactions which normally would have been handled through commercial channels, with prices and contractual conditions determined by commercial considerations. To meet this situation, it was decided, in January of 1944, to establish a new agency known as the Canadian Export Board to handle procurement of civilian type supplies for other governments. Because of the relation of this trade to the ordinary export trade of the country, this agency was established as a part of the Department of Trade and Commerce. In carrying out the operations of the Canadian Export Board, it became apparent that the contractual relations with the purchasers and the suppliers would be materially simplified if the contracting agency were a crown corporation, capable of contracting in its own name rather than having all transactions direct with the Crown. Accordingly,

in May, 1946, by an Act of parliament, the Canadian Commercial Corporation was brought into being and took over the operations of the Canadian Export Board.

While this agency for foreign procurement of civilian type goods was being built up, the direct procurement activities of the Department of Munitions and Supply were decreasing. The war was over, and it was no longer felt appropriate that purchasing should be carried on under the special emergency powers that had been found necessary during the war. By this time the volume of purchasing through Canadian Commercial Corporation on account of foreign governments had risen to an aggregate greater than the amount of purchasing being done on behalf of the Department of National Defence. A good many of the staff who had been in the Department of Munitions and Supply had by then been transferred to the Canadian Commercial Corporation, and it was apparent that there was no useful purpose to be served by maintaining two procurement agencies. In February, 1947, under appropriate authority, the procurement for the Department of National Defence was taken over by the Minister of Trade and Commerce from the Minister of Reconstruction and Supply (who had by then replaced the Minister of Munitions and Supply), and arrangements were made for the Minister of Trade and Commerce to utilize the Canadian Commercial Corporation as his agent in purchasing the requirements of the Services. It should be noted that, while the Canadian Commercial Corporation acted as a principal in dealings with foreign governments, it acted only as an agent of the Minister in procurement of the requirements of the Canadian Services. It performed as the Minister's agent the same general functions for the Services as had been performed by the Department of Munitions and Supply: namely, the receipt from the Services of details of their requirements, the canvassing of the market to determine the best source of supply, the awarding of the contracts, and the follow-up of deliveries. It did not assume any responsibility for inspection, nor did it pay the suppliers, these two functions being the responsibility of the Department of National Defence. The size of the operation is indicated by the figures for the year ended March 31, 1948, which was the first full year of operation of the Canadian Commercial Corporation. During that year the Corporation handled some 45,000 contracts for the Department of National Defence, having a total value of some \$82 million, compared with purchases on behalf of foreign governments and other agencies amounting to some \$88 million. From that point on, the purchasing on behalf of the Department of National Defence steadily increased: 65,000 contracts for a total of \$145 million in 1949; 84,000 contracts with a value of \$221 million in 1950; and 112,000 contracts to a value of \$676 million in the year ended March 31, 1951. At the same time, the business on behalf of foreign governments and other agencies steadily decreased.

On April 1 of this year the Defence Production Act came into force and provided for the establishment of the Department of Defence Production. In the month or two immediately preceding the 1st of April, 1951, various steps were taken in the Department of Trade and Commerce in anticipation of the coming into force of the Defence Production Act and the setting up of the new Department of government. Included in these arrangements were the steps necessary to provide for the transfer of the bulk of the staff of the Canadian Commercial Corporation to the new department when it was established. It was decided to retain the Canadian Commercial Corporation as an entity, for substantially the purpose for which it had been originally created: namely, to facilitate the carrying out of transactions with other countries. This was really the same function for which War Supplies limited had been incorporated in the Department of Munitions and Supply days. It proved a very successful arrangement. With the creation of a special Department, however, there was no need for a Crown company to act as an agent for the Minister of Defence

Production as it had for the Minister of Trade and Commerce in connection with procurement in Canada of defence requirements. Actually, as the situation stands today, all procurement, whether for Canadian account or the account of other countries, is, in fact, handled by officers of the Department of Defence Production, but to facilitate the contractual arrangements, the transactions with the purchasers outside of Canada are processed through the Canadian Commercial Corporation. Thus, for example, the Bureau of Ordnance of the United States Navy has a contract with the Canadian Commercial Corporation for the supply of naval guns; the Canadian Commercial Corporation looks to the Department of Defence Production for the supply of these guns; and the Department, in turn, has one contract with the Canadian supplier for the aggregate of the United States requirement as well as the Canadian requirement for that particular type of weapon.

Nature of the Program

Before describing the basic structure and organization of the department, it will probably be well to review briefly the nature of the program for which the Department was established. In introducing the Defence Production Bill in the House, Mr. Howe pointed out that the government was then embarking upon a \$5 billion defence expenditure program, which would be spread over a three-year period. This did not mean, however, that the new Department would make purchases of anything like that amount, for a very substantial part of the total cost was represented by military pay and allowances, Department of National Defence administrative costs, rentals, purchases of land, and various other services which are not dealt with by the Department of Defence Production. Over the three-year period, these expenses were estimated to amount to something over \$1½ billion, which would leave just under \$3½ billion for the purchase of goods and materials by the Department of Defence Production. To this figure would have to be added whatever production was done in Canada for purchase by other governments through the facilities of the Department.

These figures are cited to indicate the approximate proportion of the total defence budget—say 60 to 70 per cent—which could be expected to be spent by the Department of Defence Production. Little purpose could be served by any detailed analysis of the \$3½ billion figure quoted, since the program is continually changing as it develops and, further, the composition of the program, in any event, is not the responsibility of the Department of Defence Production. However, the Committee may be interested, and it may help to get the situation into focus, if I give a rough breakdown of the contracts let by our Department for the first six months of the current fiscal year. These figures, of course, may not be readily comparable to published program figures of the Department of National Defence, since we are concerned with the overall of, say, the textile program of the three Services, and not primarily concerned with the breakdown between the textile requirements of the Army, Navy, and Air Force. Again, when we refer to the field of electronics, we are thinking of all the electronic equipment that has to be procured, whether it will ultimately be incorporated in a stationary structure such as a radar station, in a gun, on a ship, or in an airplane. There is one other rather obvious qualification that I should mention in putting these figures on the record; that is, that the mere dollar volume of a particular program is not necessarily the measure of its complexity. Neither does the mere number of individual contracts tell the story. However, in order to give the Committee some indication of the job we are setting out to do, as background for a description of the general organization of the Department, I may say that in the first six months of this fiscal year the Department has placed orders to the extent of some \$1,100 million. Of this, over a third, or some \$430 million, was



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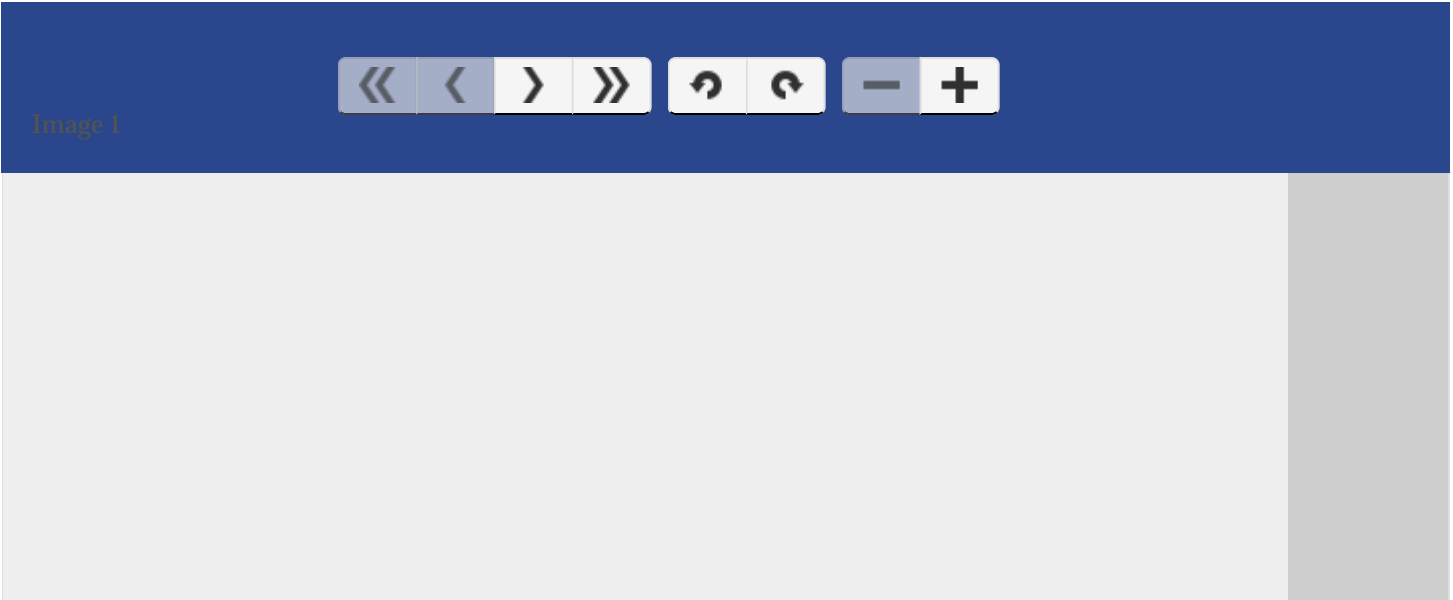
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About



for aircraft. Next in importance is electronics, which represents some \$120 million. Construction has amounted to over \$100 million, as has shipbuilding. Mechanical transport has amounted to some \$80 million. Textiles and clothing including boots and shoes, have amounted to over \$50 million, while ammunition and explosives have amounted to \$60 million, and guns and weapons to some \$50 million. From these rounded figures that I have given totalling about 1 billion dollars it is apparent that the bulk of the program is concentrated in these fields. The balance represents such requirements as fuel, food, barrack-room stores, building supplies, and general supplies.

Another point that should be mentioned at this stage is the element of "insurance" that is included in the program. It is not a program designed solely to produce great quantities of material in short order. That, of necessity, had to be the program when the Department of Munitions and Supply was established, but the program today is concerned with building now for production levels in excess of anything that is included in the present planned procurement. When it becomes necessary to establish special production facilities, the aim is to provide not only for the known requirements but also to arrange so that, with a minimum of further expense, added production can be achieved. The Department, therefore, is concerned with this problem of the development of facilities in the field of specialized equipment for direct use by the Defence Department, as well as for the production of the basic materials entering into that production.

Basic Structure of the Department

The Department's responsibilities and its authorities are set out in the Defence Production Act. The Act follows, in large measure, the provisions of the Munitions and Supply Act, and was drafted in the light of the experience gained under that Act. The rather different nature of the actual program and the great advantage of being able to set up the new Department in the light of experience of the last war meant that it has been possible to organize the Department of Defence Production on rather simpler lines than was possible in the hectic days of 1939-40 when Munitions and Supply was being brought into existence.

Now, gentlemen, I have a chart of the organization of the department. It may help to follow what I will now say if you will just keep an eye on the chart.

The basic organization of the Department rests on three main branches. There is a Production Branch, which, in general terms, is responsible for the major programs that involve specialized production; a General Purchasing Branch, which is concerned by and large, with those things that can be purchased off the shelf; and a Materials Branch, which concerns itself with the problems of the critical materials required either specially for the defence program or those required partly for defence and partly for general civilian use. That is an over-simplification of the division of responsibility between these three main branches, and one notable exception to the general principles that I have stated is that the whole of the textile program, which is very much of a production problem, is, in fact, handled by the General Purchasing Branch. However, it remains true that, by and large, the General Purchasing Branch, which is responsible for fuel, food, clothing, barrack-room stores, and general supplies, can be generally described as purchasing off the shelf, or at least as purchasing items ordinarily produced in this country, as distinct from the highly specialized production programs of aircraft, ships, ammunition, guns, etc.

You will note on the chart that under the general purchasing branch the breakdown is not as clear-cut. There is a division known as general supply

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number 1 and general supply number 2. That is purely for organizational convenience to divide it in two parts. There is no real distinction between the two divisions.

The third major division that I have mentioned is the Materials Branch, but, with minor exceptions, its activities do not involve the expenditure of Crown funds, but rather are of a regulatory nature, such as limitations on distribution and use of critical materials. Some expenditures have been made by this Branch, of which two examples are the development of the Emerald Tungsten Mine and the rehabilitation of the explosives plant of Canadian Arsenals at Valleyfield, but the branches with which this Committee will, I presume, be primarily concerned are the General Purchasing Branch and the Production Branch. If I may, I would suggest that in dealing with the control of expenditures, an attempt be made to consider, on the one hand, the general purchasing which, to a very large extent, can be and is done on the basis of competitive tenders, and, on the other, the specialized programs which involve, in the first place, selection of facilities, and in the second place negotiated contractual arrangements. Here again there is not a clear dividing line on the purchasing techniques and policies between the Production Branch and the General Purchasing Branch, for wherever possible the Production Branch does call tenders and awards business on the basis of competitive bids. Alternatively, the General Purchasing Branch from time to time is involved in allocation of orders and negotiated contractual arrangements. But it remains true that the General Purchasing Branch has more opportunity to follow the desirable course of purchase by competitive tender. To the extent that the Materials Branch is involved, its problems are obviously more akin to those of the Production Branch than the General Purchasing Branch.

The rest of the Departmental organization consists of those Divisions whose functions may be classed as horizontal rather than vertical. There is an Administration Branch, which is responsible for all matters of personnel and general office management, industrial security, and also is responsible for the very important functions of receipt and opening of tenders. The Comptroller's Branch is responsible for all matters of accounting and preparation of financial statements and for the maintenance of what are known as the Central Inventory Records, being the record of all capital assets purchased by the Department and made available to contractors. The Comptroller is also responsible for the operation of the revolving fund, through which the Department is enabled to place pool orders for materials, parts, and components for inclusion in the actual products for delivery to the Department of National Defence. Still a further responsibility is the general control of such warehousing as is necessary of supplies purchased through the revolving fund. The Legal Branch, assisted by a General Counsel on a part-time basis, is, of course, responsible for all legal matters, including the drafting of formal contracts. The responsibility of the Economics and Statistics Branch is just what is implied in its title.

A particularly important function is discharged by the Financial Adviser, you will see up in the left hand corner there, who is responsible for the Contracts Authorization Division. The Financial Adviser concerns himself with the financial implications of the activities of all the various Divisions, with particular reference to the profit margins allowed to contractors, the terms on which Crown-owned facilities are made available to contractors, the implication of patent and royalty payments, and in due course, in such re-negotiation of contracts as may be found necessary. The Contracts Authorization Division represents a system of internal audit, independent of the purchasing and negotiating officers. It reviews all contracts over \$10,000 before the actual orders are placed. It is the responsibility of the officers of

this Division to satisfy themselves from the records that the established procedures of the Department for the calling of tenders and the awarding of the contracts have been complied with and that the terms of the contracts to be awarded are in accord with the general policies that have been established. Purchases representing expenditures not in excess of the limits provided in the Defence Production Act, (i.e., \$25,000.00 or \$50,000.00, where competitive tenders have been obtained and the lowest tender is being accepted) are returned by the Contracts Authorization Division to the appropriate official, who exercises signing authority on behalf of the Minister. Purchases representing expenditures in excess of the aforementioned limits are directed to the Deputy Minister's office for his approval, thence to the Minister, and from there to the Governor in Council. It should be noted that, in accordance with the special provisions of the Defence Production Act, the Minister, or the Deputy Minister on the Minister's behalf, may, and does from time to time, authorize the entry into firm contracts without prior submission to Council. These transactions are, however, subsequently reported to Council.

The Washington Office is treated in the chart differently from the District Offices because of the special responsibilities resting on the Department's senior representatives in Washington. It is necessary for a good many of the individual Branches and Divisions to maintain representatives in Washington, but the Washington representation heads up in the Director of the Washington Office, who also holds the rank of Minister at the Canadian Embassy. The Canadian Commercial Corporation maintains a small staff in Washington, in addition to the appointment of a special officer, a Vice-President of the Corporation whose particular responsibilities are to make known to the various governmental organizations in the United States the facilities in Canada for the production of defence requirements.

It will be noted that two Crown Corporations are shown in the body of the chart—the Canadian Commercial Corporation, to which reference has already been made, and which you will see is included under the General Purchasing Branch and Defence Construction (1951) Limited, which is the Crown corporation established for the purpose of carrying out the defence construction program. These two are integrated closely with the Department, whereas five Crown companies are shown on the organization chart as being associated. These are in the box up at the top left hand corner of the chart. Four of these five are Crown companies which, while reporting to the Minister of Defence Production, are not directly related to the defence production program. These are Crown Assets Disposal Corporation, Eldorado Mining and Refining (1944) Limited and its subsidiary, Northern Transportation (1947) Limited, and Polymer Corporation Limited. The remaining Crown company which is shown as associated is Canadian Arsenals Limited. In this case, the company is shown as associated because its relation to the various branches of the Department is primarily that of any one of the Department's contractors. It has, of course, its ordinary relationships with the Minister and the Deputy Minister, but, for example, it is only one of the contractors responsible for gun production.

You will recognize that there is a division of the production branch called the gun division which is responsible for supervising the whole of the gun production program. Part of that is being produced by the Crown in Canadian Arsenals but parts in other plants. Hence, the Canadian Arsenals is shown in a rather different category.

Similarly in the case of ammunition the Department places orders with many contractors for individual components of the ammunition program, although Canadian Arsenals is, of course, the most important. You will see the two blocks on the right hand side: the Defence Production Board of the

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North Atlantic Treaty Organization. There, the Canadian government representative is Mr. H. R. MacMillan and the alternate representative is Mr. R. G. C. Smith who is a permanent officer of the Department of Trade and Commerce on loan to the Department of Defence Production. Then, there is the Canadian Industrial Preparedness Association which acts in an advisory capacity with no executive responsibility in any way.

Staff of the Department

At October 31, 1951, the total staff of the Department, excluding Crown Companies, was 1,563 persons, of which 1,223 were located in Ottawa and 340 outside of Ottawa. Of the total staff, 205 persons have been appointed under the special provisions of the Defence Production Act, and the balance of 1,358 have either been employed under the regular Civil Service procedure or were transferred to the Department from existing Departments and agencies of government. At March 31, 1951, this is just before the bringing into being the new department, the total strength of the Canadian Commercial Corporation was 665, whereas its present strength is only 38 persons, so that something over 600 persons were initially transferred to the Department of Defence Production from Canadian Commercial Corporation. In addition, 174 persons were taken over from the Department of Trade and Commerce, so that there is a net recruitment in the Department since April 1st of this year of 755 persons. The 205 special appointees now on the staff of the Department have all been engaged with the approval of the Treasury Board; 92 were appointed on a salary basis, 99 on the basis of no salary; and some 14 on the basis of partial salaries or honoraria. For the last two groups, expenses are paid while these men are in Ottawa, in addition, of course, to all travelling expenses while on government duty.

Special living allowances have been determined for members of the staff stationed outside of Canada, with the exception of locally engaged personnel. These allowances are established at levels not dissimilar to, but if anything on a slightly lower scale than the levels established for career foreign service officers.

Departmental Procedures

The general procedures, which are followed in the Department in handling Contract Demands received from the Department of National Defence and in carrying out purchasing functions, have all been codified and are now set out in a very extensive office manual. I have got a copy of it here and it is a very comprehensive and extensive document. This manual is of necessity a voluminous document, and is probably not one that the Committee will want to examine in detail. However, it is important that in a purchasing organization of the size of the Department of Defence Production the procedures should be carefully spelled out, and if it is the desire of the Committee, a copy of the manual, which is a restricted document intended only for government use, can be made available to the Secretary of the Committee for reference by any member.

I would not like to see this manual circulated widely, however. It gets out of date and has to be continually amended.

Before the committee proceeds to the consideration of detailed procedures for the placing of contracts and in order to facilitate such consideration, it may be useful to outline some of the general policies that are followed by the Department. Later, in examining some of the details of the procedure, the Committee may wish to call witnesses more closely associated than I am with the day to day operations. Certainly in so far as purchasing by competitive tender is concerned, Mr. W. D. Low, who acts as co-ordinator of the General

Purchasing Branch, would be more familiar than I am with many of the examples that might be used to illustrate procedures in which the Committee is interested. With the Committee's permission, therefore, I propose to proceed to an outline of some of the general policies followed by the Department.

General Policy Questions

Types of Purchase Contracts

1. *Fixed Price Contract, with selection of contractor based on competitive tenders.*

This is always our first choice as to the type of contract to be used, and it is the basis on which the great proportion of the total number of contracts are let. The low tenderer is normally awarded the contract, but this is not always the case. Reasons for not taking the lowest tender might be due to delivery dates unsatisfactory to Department of National Defence, unsatisfactory experience with previous orders, financial insecurity, doubt as to productive capabilities. Quite often, where some of these conditions apply only to a minor extent, the low tenderer is awarded a part of the contract estimated to be the amount that he can handle. In such cases, negotiations are undertaken with the second or subsequent low tenderer to endeavour to have him reduce his price to the low tenderer's price. Those negotiations may or may not be successful.

2. *Negotiated Fixed Price Contract, with selection of contractor either on the basis of cost estimates submitted by those contractors thought capable of undertaking the contract or, in some cases, with selection of contractor based purely on the Department's knowledge of potential suppliers.*

There are in the defence procurement program many items that it is perfectly clear can only be obtained from one source of supply.

In many cases the Department of National Defence specifies, for one reason or another, supplies from a particular contractor or of a particular make. This is often justified by the problem of maintenance spares, either in the case of the purchase of spare parts for existing equipment or sometimes when adding new units of equipment to existing stocks. It might also be justified by a desire to test certain types of specialized equipment, or as a result of previous experience with patented or technical equipment.

Unfortunately, the complexity of the program is such that there are a good many cases where that has to be done, but there is no doubt at all about the policy or the scrutiny that is given contract demands to determine, first of all, if it is possible and proper to call for tenders.

3. *Ceiling Price Contract subject to reduction to cost plus a fixed percentage.*

Where benefits of volume production cannot be determined accurately in advance, this type of contract has certain advantages.

There are many cases where an item to be produced is substantially the same as the civilian type item but in giving a contract to a contractor he figures his cost on the basis of his commercial experience. He may not be able to calculate in any precise way the benefits he will get in the long run, so we frequently negotiate contracts in which there is a ceiling price as the top price which cannot be exceeded. In some cases, if it happens that the cost is less than that ceiling price, then there will be a refund to the department.

4. *Target Price Plus Incentive Contract, which results in payment to the contractor of actual costs ultimately determined by audit plus a fixed fee, being a percentage of the target price, plus a bonus representing a percentage of the difference between the cost ultimately established by audit and the original target cost.*

This type of contract retains the advantages of an incentive to the contractor for cost reduction, but is only practicable if target costs can be determined with

reasonable accuracy or if there is some other valid criterion by which they can be judged; for example, in cases where production in Canada is being started on an article previously imported, and where the current laid-down import price is known.

You might well set a target price for the production in Canada of, let us say, an air-frame. You may know what it would cost you to buy it in the United States; you do not know what it is going to cost in Canada. The contractor cannot give you a firm price but for strategic or for other reasons it might have been decided to make the air-frame in Canada. You sit down with the contractor and agree on a target price. You know whether that target price is reasonable because you know what it would cost to bring in the completed article and then you say, "So long as we can get them for that target price, then we will give you that price plus some agreed rate of profit, but if you can, through efficient operation, get those costs down, you will get some part of the benefit of that efficiency; we will share the reduction in cost that results."

5. *Cost Plus Fixed Fee Contract.*

This type of contract is preferable to the type of contract generally known as "cost plus", since increased costs do not mean increased profits or fees to the contractor.

6. *Cost Plus Contract.*

These contracts, which result in the contractor being rewarded by a fixed percentage of whatever his costs may be, are, in general terms, the least desirable, but under certain circumstances are inevitable; e.g., where it is not possible to estimate with any accuracy at all the size or complexity of the job.

You could have, for example, a target price contract which also has a ceiling price in it.

These are the principal types of contracts that are used, though sometimes arrangements with a contractor may involve a combination of one or more of the types I have mentioned, other than the first clear-cut type, i.e., fixed price contracts based on competitive tender. Statistics that have been kept thus far of contracts let simply distinguish between those based on competitive tender and all others. We are continually trying to improve our statistical methods and classifications. At the present time I can give the Committee some figures for the last six months of the fiscal year 1950-51. In that six month period the Canadian Commercial Corporation, which was then the purchasing agency, issued on behalf of the Department of National Defence 53,704 contracts, of which 42,632 or about 80 per cent by number were on the basis of competitive tender, while 11,072 were on other bases.

I have not put in this memorandum the value of these contracts. I have the values here and they can be given to the committee, but I want to illustrate how difficult it is to interpret the position from the aggregate values. Those 42,632 contracts have a value of \$94 million, whereas the 11,072 contracts had a value of \$429 million. On the face of it, that needs some explanation. There was one contract alone in the allocated orders which was a contract for over \$30 million. It was for radar sets, being manufactured by Canadian Arsenals Limited, and that one contract ran to, I think, \$35 million. Now, I want to give you another example. These figures are for a different period. During the first seven months of this current fiscal year, the mechanical transport division issued 901 contracts, and 892 of them were by competitive tender. But those 892 contracts amounted to \$2 million. There were 9 contracts issued by other than competitive tender, and they amounted to \$42 million. The reason is obvious, of course. A very substantial part of the mechanical transport requirement could only be purchased from one place, the United States government. So there was a very substantial contract for

purchasing American types of equipment, and you cannot call for tenders when you are buying from the American government. In addition, there was the decision to manufacture 3 types of vehicles in this country, so it was only open to the 3 really big automotive companies. Therefore, there was no point in going to tender. You could not call for tenders on a contract to produce a Chrysler-built vehicle. You could only go to the Chrysler Company. I mention this because if one takes the values it does look as if a very substantial part of the business was allocated rather than called by tender. But if you look at the number of contracts which we let, which really is the measure of whether or not we are following the policy, in the mechanical transport field there were 901 contracts issued and 892 of them were let by competitive tender.

Mr. MACDONNELL: And those amounted to \$2,000 each?

The WITNESS: In that 7 month period there were altogether 82,000 contracts let of which something over 60,000 were let on competitive tender.

General Conditions of All Contracts

The Department has developed a series of General Conditions, which are published and which, by reference, are incorporated into all contracts. The main set of conditions, which is applicable to all contracts irrespective of their nature, is known as Form DDP-26, and covers such matters as arrangements for sub-letting any part of the contract, conduct of the work, inspection, acceptance and delivery, warranty, government issue, scrap, insurance, accounting, secrecy and protection of work, patent claims and royalties, Canadian labour and materials, title, default, termination, and other similar matters. In addition to this form, there are special conditions attaching to aircraft overhaul, ship-building, ship repairs, capital expenditures, firm price contracts, cost plus contracts, construction contracts, and various others.

Actually, Mr. Chairman, there is a complete set of these standard forms, which may be made available to the committee if anybody is interested in reading them. They are very lengthy legal documents. In the first instance, these forms were developed by the Department of Munitions and Supply, but they have all been carefully revised by our legal branch and general counsel, and they are now issued in this form.

Mr. DREW: I think it would be well to dispose of that now and have a copy of the earlier document, the one governing general regulations, and this book filed for reference with the committee.

Mr. MCILRAITH: You mean the administrative manual, the earlier book?

Mr. DREW: Yes.

Mr. MCILRAITH: Yes.

The CHAIRMAN: Agreed.

The WITNESS: One of these sets of General Conditions which is of particular interest is the one known as Costing Memorandum DDP-31. This memorandum sets out the classifications of expense that will be recognized by the Department as properly constituting an element of cost. It has, of course, particular reference to any contract based on cost plus some fixed or percentage profit. It could also relate to a negotiated price contract in which the Department might have agreed to a fixed price, on the understanding that it was based on costs computed on the basis of Costing Memorandum DDP-31 plus a given rate of profit.

Very often where we cannot go to competitive tender, there is only one source of supply and we would inquire from the supplier as to the basis on which he arrived at his price. And very often we are successful in getting from him an undertaking in which he says that his selling price is based only on the sort of things we have included in the costing memorandum, and that

he is only taking a certain rate of profit. Now, if he gives us that undertaking, and if it is later found necessary to conduct an audit, the terms of that costing memorandum become a part of the negotiations. The memorandum specifies a number of expenditures which may not be included as costs. The two exclusions which are perhaps most noteworthy are interest on borrowed money and selling expenses. This is important because it must be remembered that the rates of profit which the Department sets on some of its contracts are not a net profit to the contractor. The reason for excluding these two items, interest on borrowed money and selling expenses, is so that the Department will not be placed in the position of expressing an opinion as to the proper or reasonable amount of such expenses. Interest on borrowed money is clearly an expense of doing business, but the Department could not get comparability in its treatment of various contractors if, in the case of a man largely financed by borrowings, his costs were increased by interest, while his competitor, who might be financed entirely from his own capital, would have no such element of cost in his accounts. What the Department is really saying is that the profit, to which it agrees, is the reward that it is prepared to pay for the provision of all the capital facilities, including working capital, necessary to carry out the contract.

In the case of advertising, the Department seeks to avoid the very difficult and contentious questions regarding the proper amount of advertising and selling expenses to be incurred by business concerns. It does not deny or confirm the need for such expenses as part of a company's general overhead, but simply says that it will establish a rate of profit out of which the contractor, in his wisdom, may expend such amounts as he sees fit on advertising and selling expenses. I have mentioned these two points particularly, because they are ones which frequently give rise to questions on the part of contractors, and there may still be some misunderstandings as to the reasons for our exclusion of these items.

Profit Allowances

Where the Department is successful in obtaining tenders from a number of suppliers, it is generally assumed that the margin of profit of the successful contractor need not be a matter of special investigation, since competitive factors should insure that the best value is being obtained for the taxpayer's dollar. In all cases where it is necessary for the Department to examine costs and profit margins, the general yardstick which is followed is a profit rate of between five and ten per cent of cost. The actual rate varies, depending upon the nature of the industry, the size of the contract, and the type of the contract. These rates, as I have pointed out, are not net profit to the contractor, by reason of disallowed expenses, but even without regard to disallowed expenses they are lower than the rates of profit being earned by manufacturing concerns on general commercial work, as evidenced by statistics published by the Taxation Division of the Department of National Revenue.

Now a Word About the Provision of Special Facilities

As previously stated, the overall defence program includes a large element of what has been called "insurance" in the form of provision of facilities capable of production levels in excess of present requirements. This means that facilities must be expanded or created on a basis which could not be undertaken for commercial reasons. This naturally requires provision of Crown-owned facilities, representing for the most part specialized machine tools to be installed in existing privately-owned plants, but to some extent involving the provision of new buildings. Where a whole new facility comprising buildings and machinery is involved, arrangements are made for

management by private concerns who can contribute the necessary skills and know-how. In a few cases arrangements have been made which provide for some of the capital contribution to be made by the contractor, possibly the building supplied by the contractor and the machine tools, which are movable, by the Crown. But in most cases it is found preferable that the capital facilities, whether they are buildings or machine tools or both, should be owned outright by the Crown, which then has a free hand as and when the question of disposal comes up. The general policy of the Department has been that, where the Crown must provide the capital facilities, they remain the outright property of the Crown with no strings attached. In some cases, particularly where a whole new facility is being created, part of the arrangement is to give the right of first refusal to purchase (with no price commitment at all) to the contractor occupying and managing the plant.

If a contractor is prepared to put up his own capital for buildings, building alterations, or equipment specially required for departmental orders, the department generally is prepared to extend to him the special arrangements for accelerated depreciation. It should be noted, however, that this is merely an arrangement by which he may, for income tax purposes, apply profits actually earned to write down his capital investment. He may not treat the extra depreciation as an element of cost in determining the selling price of his product to the Crown.

In a few cases it has been necessary to put up Crown funds in the form of building alterations, where it is impossible for the Crown to take title to the assets created. It is the policy in such cases to endeavour to arrive at an arrangement whereby the contractor will accept the residual value of such alterations as a part of whatever reward or profit he is entitled to make on the contract.

The great bulk of the expenditures for capital assistance represent specialized machine tools which, as I have said, remain the clear property of the Crown. In the majority of such cases, these tools are capable of being used only for the product being produced for Crown account, and no question of rental or use of these facilities for commercial business arises. Where, however, the special tools being provided by the Crown could to some extent usefully be used by the contractor for commercial business, an arrangement is made for a suitable rental to be charged to the contractor, with the end result that the Crown recovers an appropriate amount related to the use that is made of the tools for such commercial purposes.

Pool Orders

It is sometimes convenient and economical to arrange for the pooling of orders for materials or components required by a number of contractors. The outstanding example is the manufacture of the fabrics that will ultimately be made into uniforms. The policy here is, in consultation with the services, to determine the total requirements over a considerable period of time, and then to arrange for the manufacture of the fabrics to the required specifications. This cloth is then taken into warehouse and subsequently sold at a common price to all the garment manufacturers concerned, the price being calculated to return full cost and warehousing charges to the Department. This type of operation is financed through the Department's Revolving Fund, initial purchase of the fabric being paid for out of the Fund and proceeds of sales to the garment manufacturers being credited to the Fund. In this way the accounts of the Department of National Defence are affected only once; i.e., by the final payment for the cost of the completed garment. The more important advantage of this system is the benefit of quantity orders being placed for the fabrics, yet the garment manufacturer still has the full incentive for economical use of the fabric, which would not be the case if the fabric were given to him as free issue rather than being sold to him.

The same principle of pool orders—though not always involving resale to the contractor—is followed, for example, in ship components. The destroyer escorts are being built in a number of shipyards, but the Department has one contractor for the propulsion machinery for all the vessels. Whether or not the item purchased in this way is given as free issue or sold to the contractor, is decided generally by the ordinary conditions of the trade. As a general rule, materials are sold and components are supplied as free issue.

I think, Mr. Chairman, that covers the basic policy.

The CHAIRMAN: Gentlemen, Mr. Mackenzie has already indicated that there is a departmental administration manual which is a restricted document. The suggestion made is that it be left with the clerk and members of committee have access to it. There is another book, Department of Defence Production standard forms. That is not a restricted document. That also will be with the clerk.

Are there any questions?

By Mr. Drew:

Q. Yes. I would like to start with a question relating to the basic weapon which seems to be the sound basis for all defence. What rifles have been purchased in Canada for the defence forces?—A. Mr. Chairman, I have not got the actual detail of purchases of that type in here. I have some general figures which I can give, but they relate to the size of the various programs.

Q. No, I think that the best way to proceed would be to see exactly what you are getting in connection with the armed forces, explaining as we go along through the principal types of equipment. I should think that we should start with rifles. Now, what type of rifle is on order?

The CHAIRMAN: Just a moment, Mr. Drew. It was suggested at an earlier meeting that Mr. Macdonnell would provide a list of information which he required. That was done and it was turned over to the department in order that they might have the information available.

The purpose of this meeting was to hear Mr. Mackenzie and question him; and then to hear Mr. Bryce; and then we would have some tabling of expenditures under such headings as equipment, training, cost of administration and other information so it would be available for you to question him on at a later meeting as soon as that information is prepared.

MR. DREW: I must say, simply having regard to the fact that Mr. Mackenzie has come forward with this brief he is the official who at this point could answer certain questions which would not take very long and which should be easily answered by him. I am simply asking as a first question what type of rifle is being ordered.

The CHAIRMAN: For my part, I see no reason why he should not answer as to what type of rifle.

The WITNESS: Well, Mr. Chairman, the answer to that question is that there are no rifles at the moment in production for Canadian account.

The CHAIRMAN: No, but he asked you what type. You say there are none—

The WITNESS: There are none in production for Canadian account.

MR. DREW: There are none in production for Canadian account?

The CHAIRMAN: Let us not get into that field at the moment. I suggest that the information, will perhaps be here at the next meeting in answer to the requests which have been received. Then you will be able to follow that line of examination.

MR. DREW: I presume the committee will be meeting tomorrow?

The CHAIRMAN: No, we don't meet again until Tuesday.

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Mr. DREW: Now, Mr. Chairman, I do not want to start at this stage to get away from a very orderly discussion of the situation, but not one of us is unaware of the time factor that is involved. If we do not meet again until Tuesday it simply means that no real information with regard to defence expenditures is going to be obtained at all. Mr. Mackenzie has given very valuable and interesting outline of the organization of the Department of Defence Production and its functions. That, however, is something which could have been presented to the members in written form as a very helpful base. But, surely, with all the delay that there has been in bringing this committee together we should seek to get some information before the end of this session as to what we are really doing in the way of defence requirements; and, interesting though it may be, I think our knowledge of the contractual forms of this department, and information of that kind, is much less important than getting some information as to the rifles, field guns and other equipment of that kind we actually are buying at the present time for the defence forces. After all, Mr. Chairman, there is no one here who knows better than you do that that is the basis of defence; and I would have thought that with the official who has come forward it would not have taken very long to get from him a summary of information on questions relating to what the government is doing in the matter of buying rifles, machine guns, bazookas, rocket launchers and things of that kind; and then get into the large field of medium guns, light howitzers, heavy howitzers, recoilless guns, anti-aircraft guns and so on. I should think that Mr. Mackenzie would be able to give us the answers to questions of that kind in a matter of minutes, probably in less than half an hour.

Mr. MACDONNELL: I would like to point out this, Mr. Chairman, that I did ask for this information to be ready as soon as possible. Frankly, I want to say that I do not understand the reason for having called Mr. Mackenzie to give the information which he has already given. I rather expected that the information I had requested would be ready.

The CHAIRMAN: I agree entirely, Mr. Drew, about what information you require. Mr. Macdonnell outlined the sort of information desired and the committee thoroughly agreed with him. That request was turned over to the appropriate department for that purpose. I think that information might possibly be given by Mr. Drury who is procuring it and he will be available to us at our next meeting. I understand that it is not going to take a lot of time to get that information. I might inform you that you will be able to get it in the way in which you wanted it. Some of it will be available to our next meeting on Tuesday.

Mr. DREW: Let us decide now to call the committee tomorrow.

The CHAIRMAN: It is not possible to call a meeting tomorrow, Mr. Drew, because some of us here are on several other committees. Some of us are on the combines committee. Tomorrow will probably be the last meeting. We should be there.

Mr. DREW: I understand the importance of it but I do not think there is anything more important than to get the basic information on what we are getting together in the way of defence. The contracts for buildings, the contracts for a number of other things are individually the process by which we get the things which give the defence forces on land, sea or air more hitting power, and I would think the most important thing we should know, and as early as possible, is what we are actually buying and at what price and from whom.

As far as these things are concerned, Mr. Mackenzie has not indicated that he would be unable to tell us what weapons are being bought, and that being so I would think that there would be no difficulty in very quickly

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covering the ground with these various questions and finding out just what weapons are being supplied and the type of weapons being made available for our defence forces. It seems to me that from the broad structural information he has given us, Mr. Mackenzie has made it quite clear that the department with which he is associated handles the purchase of these things.

Naturally there would have to be consultations in the case of military requirements doubtless with the Department of National Defence, but it would be Mr. Mackenzie who would have to give Mr. Drury the information on what was on order. I for one would like an opportunity of putting those questions to him.

Mr. McILRAITH: Might it not be a good idea to re-read the minutes of the steering committee which were read at the start of the first meeting. The proceedings of the last meeting have not yet been printed and there seems to not be a good deal of appreciation of what the system agreed on by the committee was.

I think everyone here is anxious to go forward as quickly as we can with this matter; it is a big subject and a difficult problem but there was a procedure agreed on by the committee and I think an effort is being made to follow it. I think that we should recall to the committee's mind exactly what was done in the steering committee meeting, the first meeting and the second meeting.

The CHAIRMAN: We requested at our first meeting for the tabling of certain information which will probably answer the questions that Mr. Drew now asks and others will wish to ask. Now, the question arises when the meeting will be, whether it should be called tomorrow or early in the week.

Mr. MACDONNELL: I would say, Mr. Chairman, that if this were three or four weeks from the end of the session that would be all right. Let us be honest with each other. That thing won't amount to anything before we adjourn or prorogue or whatever we are going to do.

Might I ask that if there is a real desire to meet tomorrow can't we do it? Now, as has been said by Mr. Mackenzie, these figures are surely routine figures and I cannot see why they cannot be given just right off hand. That is the reason I put my request forward on Tuesday so that there would be no element of surprise.

The CHAIRMAN: There is no element of surprise. All the information that is available as a result of the report of the Sub-Committee on Agenda will be made available to this committee—everything that they asked for. It was merely a matter of orderliness. We thought we should have the background. We still have one more witness; we can finish with him today if the questions are short and the next time a meeting is called we can immediately give the information that Mr. Drew and others require.

Mr. DREW: Mr. Chairman, just on two points that have been raised. I do not think we should be unduly impressed by formality or otherwise. If the purpose of this committee is really to get down to defence expenditure, and that means expenditure on defence, then our greatest concern is to find out what is being spent on defence and for what purposes; and interesting though the expansion of the information about the structural build-up might be, since we are limited by time. I would have thought it was very proper that now that Mr. Mackenzie has given us this information and, for instance, in relation to his figure of \$50 million which he has mentioned as a figure for weapons that we, simply as an example, take that and find out from him just how that is made up and I would think that most people—in fact I think I read something that you said once yourself which emphasized the primary part that weapons play in defence organizations, and I thought it would be

appropriate in relation to that while Mr. Mackenzie is still here that certain questions be asked which could be answered very quickly.

I leave it at that point. In regard to the other committee meeting I know the committee to which you refer and which you are attending tomorrow. Might I say, Mr. Chairman, that if we are going to get ahead with this matter, recognizing the limited time that is still available, that I would have thought, while recognizing the special qualifications you have to act as chairman in this case, that we could have proceeded tomorrow with the use of a deputy chairman if you could not be here.

The CHAIRMAN: May I just point out that there are several members of the committee who are equally involved tomorrow.

Mr. DREW: You cannot tell—they might support your motion at the other committee?

The CHAIRMAN: That is my hope but, gentlemen, I realize that there is a great deal of truth in what you are saying, Mr. Drew. We are trying to get on. Prorogation is ahead of us. The endeavour is to get as much information as is humanly possible before the House rises.

Mr. DREW: It is just with that point in mind, Mr. Chairman, that if you would let me question along this line for twenty minutes we would have some interesting information on what we are getting in the way of defence requirements.

The CHAIRMAN: Mr. Drew, you are first on the list for the next meeting. You can have all the time you like. Let us finish with Mr. Mackenzie. I have Mr. Bryce who will also give you some information, and then we will get down to the details at the next meeting. Are there any questions at all for Mr. Mackenzie?

By Mr. Stick:

Q. I would like to ask one question. The Department of Defence Production does not decide the type of weapon you are going to buy; that is the Department of National Defence?—A. The department does not decide on anything to be bought; we simply receive the requisitions from the Department of National Defence.

Q. They make the decision as to what type of weapon you are going to buy?—A. Exactly.

Q. I wanted to get that clear in my mind.

By Mr. Drew:

Q. Just as a matter of procedure and in relation to the structural organization which you have described to us, take the purchase of the two DeHavilland comets. Will you just explain as an illustration how that was proceeded with or what course was followed in acquiring those two DeHavilland comets?—A. The procedure for all purchases on behalf of the services starts with a formal document what is known as a contract demand which comes from the Department of National Defence. That demand is received by the Department of Defence Production which then proceeds to take purchasing action.

Now, in the case of the purchase of the DeHavilland comet, it is perfectly obvious you could not call tenders; it is simply a question of negotiating there on price and further arrangements to be made with the DeHavilland company on delivery, and so on. Our activity is initiated by the receipt of a contract demand.

Now, the demand for certain items does not come from the Department of National Defence or some other department of government. They are the ones

that are initiated by the Minister of Defence Production and that is where he is laying in supplies that will ultimately be used in the manufacture of items for the Department of National Defence. In other words, the Minister of Defence Production himself decides that it will be advisable to buy certain yardages of cloth and raises that demand himself. I might say it is done in consultation with the services but the contract demand for that type of item comes from the Minister of Defence Production. All other demands come from the agency which will eventually have the ownership of the asset.

Q. From whom did the contract demand emanate in the case of the two DeHavilland comets in England?—A. It must have been the Minister of National Defence. I have not the document in front of me but it must have been by reason of the amount involved.

Q. I wonder if you would check that. I think it would be helpful if we saw a copy of the contract demand in that particular case. I am simply taking this as an illustration of the procedure that would be helpful to us. Would that contract demand come from the Minister of National Defence or would it emanate from the Chief of the Air Staff?—A. We would not know that, Mr. Drew. The document that we receive is the formal contract demand which requires the minister's signature if it is over a certain set amount and I am confident the Comets you speak of were over that amount.

Q. You would be able to produce a copy of the contract demand?—A. I do not know whether that document should be produced or not, Mr. Chairman.

By the Chairman:

Q. The document exists?—A. It must.

Q. Is it in your possession?—A. Not at the moment. I suppose it is in the department.

Mr. DREW: There cannot be any terms of secrecy applying to a demand for aircraft being sold for ordinary commercial purposes throughout the world.

By the Chairman:

Q. I am not sufficiently aware of what the contract consists. Let us find out who has it. Is it probably in the minister's possession?—A. No, it will be in the department's possession. We have hundreds of thousands of contracts in the files of the department.

Q. Well, Mr. Drew asks that the contract be produced. I see no reason why it should not be. Is there anything secret about it?—A. I would not have thought so.

By Mr. Drew:

Q. Then, I think also at the time that that is prepared it would be helpful, Mr. Mackenzie, if you would find out who actually carried out the negotiations with the DeHavilland company and the date on which the negotiations were opened with the DeHavilland company and also whether at the time that this was done it was done by any competitive tender or simply done as an order without reference to any other possible types?

Mr. BALCOM: It might be important to know who negotiated the contract, whether a member of the staff or someone else?

The CHAIRMAN: It may become important.

Mr. DREW: If I did not put it in that way I intended to put it that way; but who first opened negotiations with the DeHavilland company in connection with these and at what time?

Mr. MACDONNELL: Mr. Chairman, I would like to ask a question—

The CHAIRMAN: The reporters are complaining that they do not hear you clearly. Please, Mr. Macdonnell, speak louder.

By Mr. Macdonnell:

Q. About halfway down page 4 it speaks of the Department of Defence Production receiving from the services details of their requirements. Now, does the department exercise any control over this money? Does it question any of the amounts required because, after all, some of us know something about the army and we know that whatever virtues may be attributed to its officers—and they are many—you cannot expect them to be as worried about money as we are. Now, I would like to know if there is any check of any kind or if that statement is to be taken without qualification—“received from the services all the details of their requirements.” I am thinking not only of guns and rifles and whatnot, but ordinary civilian supplies. I saw a tender not so long ago which had amounts in it which seemed to me very high. They might have been all right but they seemed to me very large for ordinary supplies, and I raise the question is there any check of any kind upon the moneys? Is the first and last responsibility taken by the military officials?—A. The Department of Defence Production does from time to time question the volume of a demand but it is done, not on the basis of the cost or the requirement of the service, but from the supply standpoint. We had a perfectly good example sometime ago when the Department of National Defence raised a contract demand for a very substantial number of blankets. I have forgotten the number, but it was a very substantial number. We thought that, as a matter of procurement, to put an order of that size into the market at that particular time would have been most unfortunate and would have had very serious results on the civilian supply. Consequently, we went back to the service, we discussed it with them, we arranged, instead of placing an order of that size, to spread it out over a longer period of time so there would be a better source of supply.

Q. I can understand that point of wise purchasing but do I understand correctly that you do not question the amount they asked for, that you just take that and work from that, that there is no authority — that there is no outside authority who raises any question as to what is being spent for the services?—A. I cannot answer the question as to whether there is any such authority. I can only speak for the Department of Defence Production. As far as the Department of Defence Production is concerned it accepts the contract demand, it accepts the requirements it receives from the Department of National Defence.

The CHAIRMAN: Any further questions, gentlemen?

By Mr. Drew:

Q. Just so that there won't be any possibility that Mr. Mackenzie would be unready to answer the related questions which I will ask in relation to the broad structural information perhaps you can answer a question now and if not I would ask that you make a note so that you can answer it when you obtain the other information.

Having regard to the fact that the Canadian government through its agencies has spent considerable money on the development of a jet airliner in the Avro plant in Toronto, I would like to know what consideration was given to the comparative advantages of transferring the purchase to the type of airliner which has been developed at public expense and what conclusions led to the decision to choose another type of airliner for what would be the same kind of service for which that airliner had been developed. Can you answer off hand?—A. I can say off hand that the two aircraft were quite different in the uses to which they could be put.

Q. In what way?—A. The range of the aircraft, for one thing. They are very different. I cannot go into an argument on the technical points but I am sure that the two aircraft are not interchangeable; they are built for different purposes.

Q. I do not want to question you on a matter which you cannot answer, but I was under the impression from press reports that I have seen that the purpose that had prompted the buying of the De Havilland comets was for school training and interceptor work. That, might not be right. If that is so I would be curious as to why the range of the aircraft is so important because I did understand that one jet airliner built by Avro was being used for doing something of a comparable nature to the De Havilland comet.—A. Mr. Chairman, I do not think that I am really competent to get into a discussion of the suitability of the various aircraft.

The CHAIRMAN: My advice is don't.

Mr. STICK: Mr. Chairman, would that be a question of policy?

Mr. DREW: I think that I can remove any suggestion that it is policy. After all, if one is buying anything one wants to try to buy it as cheaply as one can and that does not involve departmental policy. I am curious to know why an airliner on which public money has been spent was not regarded as suitable and another type was purchased for a somewhat comparable purpose. I imagine that could be easily answered in that way without anything savouring of departmental policy.

Mr. McILRAITH: I think that could be brought forward. Part of it was answered the other day in the House on the orders of the day, but I think the whole information on that point should be brought forward. I am not clear whether it could be fully brought up by the ministers from each department but I think it could be brought forward. The main point is that the two kinds are not comparable and it seems that that is more or less a technical discussion. I think it could undoubtedly be brought forward and I think the committee should have it.

The CHAIRMAN: On that point, you were having some difficulty with a technical discussion in the House the other day.

Mr. McILRAITH: Well, I did not know how far to go and the second thing was I did not have all the technical information.

The CHAIRMAN: We have Mr. Bryce who will take ten or fifteen minutes and if we clear him today we can carry over the other information to the next meeting.

By Mr. Macdonnell:

Q. You must have tens of thousands of these contracts, many over \$2,000 and a great many must be very trivial amounts, and I just raise the question of whether there is any possible way of lessening the number. You must have hundreds and hundreds of these contracts and if my arithmetic is correct they must only run into a few dollars.—A. There are many contracts of very small amounts.

Q. Would not that mean that a lot of legal work must go into them? Perhaps there is no way of avoiding it.—A. Might I just say this to you, Mr. Macdonnell, that when you refer to contracts, that does not always mean a long legal document. These are called contracts for the purposes of statistics. The bulk of these would be evidenced simply by the acceptance of a purchase order.

Q. You mean just a letter?—A. We have, for instance, "an acceptance of order" form and that form simply says: "Your offer is accepted. The

purchase is subject to the general conditions above" and so on. It does not mean a long voluminous contract every time.

By Mr. Churchill:

Q. I have one question whether the Department takes into account the time factor involved in regard to manufacturing establishments right across the country. An example of this came to my attention some time ago in manufacturing for the CWAC's and tenders were to be opened, I think, about the end of August and the delivery was set as the first of October. Well, certain Winnipeg manufacturers thought that that was a serious hindrance when tendering because of the time limit whereas they estimated that the bringing of material into Winnipeg, manufacturing it and then shipping it back and trying to meet the deadline would amount to about thirty days and would put them at a distinct disadvantage to the manufacturer who was closer to the point of delivery which I think was Montreal or here. How does the department deal with situations like that?—A. Well, Mr. Chairman, I obviously do not know the details of that particular transaction. The general approach is, within the limitations of the deadline set by the department of National Defence as to when they want delivery, to call tenders and allow as long a time as is considered appropriate in order to give an opportunity across the country. That certainly is what we are striving to do. There might have been some special circumstances in connection with that particular order that required a narrowing down of the time limit. I would be glad to investigate any individual case that you suggest. But certainly our general approach is to try and give tenderers right across the country time to get in their tenders.

You did mention the question of paying freight on the material. I might say that we are paying freight from the central warehouses on material out to the contractors now.

Q. Well, it was not a question of getting the tenders in; it was completing the manufactured product in time to meet the deadline set by the department. In that particular case it seemed to me it was a very, very short time. There may have been some special reason.—A. This is a very common problem. The department will require a particular supply by a certain date. We continuously strive to get these requirements out as soon as we can, but this problem does come up from time to time and then where we get into the cases we have to split the order to meet the deadline of the Department of National Defence. One contractor cannot handle the whole thing; it has to be split.

By Mr. Wright:

Q. On page 10 of mimeographed statement it says:

It should be noted that, in accordance with the special provisions of the Defence Production Act, the Minister, or the Deputy Minister on the Minister's behalf, may, and does from time to time, authorize the entry into firm contracts without prior submission to Council. These transactions are, however, subsequently reported to Council.

What is the type of contracts and what is the principle on which the contracts are let and what are the reasons for letting that type of contract without prior submission to Council?—A. Well, I can give an illustration very quickly. A very common one—I should not say a very common one because there are not a tremendous number of them but there are quite a few—they come quite frequently in the textile program. We got into the business of buying wool. We had to because the industry felt that they could not handle the actual purchase of wool. I am speaking now of six or eight months ago

when it was decided, in consultation with the industry, that the department would buy wool. Now, when you go out to buy wool you get an offer and you have to accept it within a matter of hours; otherwise the offer is gone. In such cases, the minister or the deputy minister places the contract and then reports to council what he has done.

Q. It is in that type of contract?—A. It is that type of thing. Occasionally at the last minute before a certain deadline there may be 2 or 3 items which come up. I think that happened just before the despatch of troops to Korea. At the last minute something was remembered which had been overlooked, so contracts had to be placed very quickly in order to catch the sailing of a boat. Sometimes it happens in respect to the repair of a vessel. And there are cases when you have to make up your mind very quickly. The minister or the deputy minister is authorized to act and all such cases are reported to council.

By Mr. Stick:

Q. What about the Washington office? You have an office in Washington and a councillor in the embassy as well? Why should there be an office of the Canadian Commercial Corporation in Washington as well as a councillor in the embassy? I am not clear on it. Does our representative in the Canadian Commercial Corporation in Washington let contracts in Washington, or does he consult you before he lets contracts? How far can he go, and where does he stop?—A. The office in Washington, of course, is carrying on as part of the departmental organization. But as to Canadian procurement from the United States services, and in the case of Canadian sales to the United States, the United States prefers to deal—I am speaking of the services—they prefer to deal with a government agency in Canada. So, when they want to buy something from Canadian production, the contract is placed with the Canadian Commercial Corporation in Washington, and from Washington they are sent to Ottawa. Actually the contractual arrangements are made up here in Ottawa.

Q. Negotiations, however, are carried on in Washington?—A. Yes, the preliminary negotiations. And I have seen transactions come in all the way from \$1.50 up. It may be that in small transactions there is a final settlement made down there, but it would be governed by the degree of authority possessed by the individual officers in Washington. Throughout the department, various officers have commitment authority up to certain limits, so I think there would be a number of people in the Washington office who would have authority up to those limits.

Q. It has to be done through the office there?—A. Yes; but in connection with other activities of the department, such as negotiations with the United States authorities for the allocation of steel and the arrangements of the International Materials Conference on base metal (there are international committees meeting which cover copper, lead, zinc, and so on) all such activities are handled through the Washington office.

Q. That means that what is required for NATO in the way of basic metal requirements are co-ordinated at Washington and then discussed and allocated to the different countries?—A. There is the International Materials Conference at which a number of countries are represented. Canada is represented on some of those committees. These committees meet and make recommendations to the governments concerned. There is nothing completely formal about it; but the international group makes recommendations to governments which may or may not accept them.

Q. And the headquarters of that group is in Washington?—A. Yes, the headquarters of the International Materials Conference is in Washington and we have every extensive connections with them.



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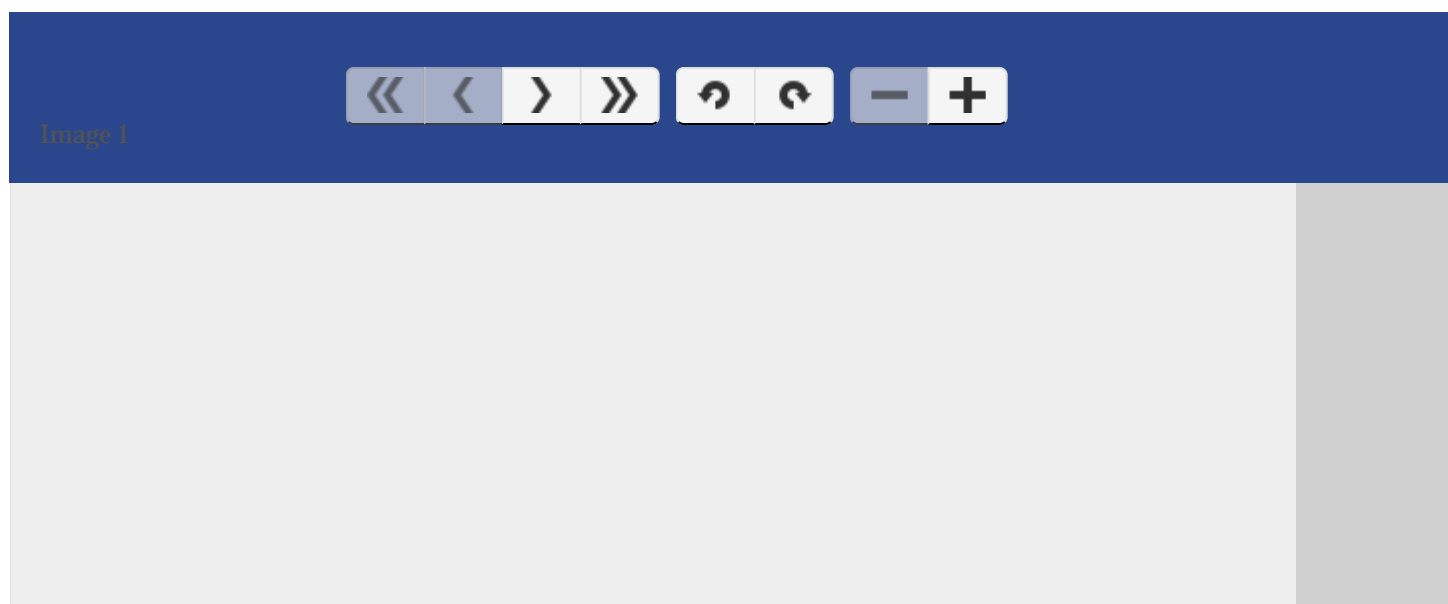
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By Mr. Macdonnell:

Q. I was going to ask the witness about the Canadian Commercial Corporation because it was stated that the purpose for which it was originally set up was not now so important. But I take it that because the United States wants to deal with a corporation, that is the reason the corporation is still kept going even though you have the Department of Defence Production as well?—A. That is one of the reasons, yes. It is a very convenient agency through which to handle contracts with the United States government.

Q. You have only that Crown corporation which can do it? It has not got much else to do but that, has it?—A. It conducts dealings with other countries, but the United States is the principal one. There are some dealings with the United Kingdom, and it is also used for the purchase of such materials as have been bought by the Department as strategic reserve. It bought the imports of tin, for instance, that were made some time ago.

By Mr. Henderson:

Q. Suppose a Canadian contractor wishes to purchase a piece of machinery in the United States. What, briefly, is the procedure he would have to go through?—A. I think anybody who has been trying to purchase machinery in the United States lately would say that you could not describe it briefly. It is a very involved procedure, particularly if you are speaking of machine tools. The machine tool situation is very complicated and very difficult because the supply is very short. Our office in Washington would facilitate the purchase of machine tools but it is a most elaborate procedure. First of all, there must be 70 per cent "set aside" for the American services; and then there is only 30 per cent available for the civilian purposes. It is a most complicated procedure. Of course, I am speaking of the United States procedure.

The CHAIRMAN: I think Mr. Henderson is interested in learning what office he should visit first, and how many, and where does he get a "yes"?

The WITNESS: I would not attempt to answer that question. I suggest that if there is a Canadian who wants to get some machine tools from the United States, he would be very well advised to talk to our people before he gets into it. He should speak to the Machine Tools Division of our department.

Mr. DREW: I have one point, Mr. Chairman, which I would like to raise now, so that we may not be confronted with any suggestion of uncertainty on this point. At the first open meeting a list of weapons about which information was required was presented by Mr. Macdonnell. In going over it, it is quite apparent that the intention was to obtain information in regard to all the weapons that are regarded as weapons necessary for the land, sea and air forces; and if there are weapons which have been decided upon and which have become standard, other than those mentioned, I ask that Mr. Mackenzie, or whoever can answer it, be ready to answer to the point. I am referring particularly to the fact that questions may be asked as to guns of a particular calibre, or weapons of a particular nature, and it may be that decisions have been made to change to other types of weapons useful for the same general purpose. So I would ask that that thought be kept in mind when preparing the necessary report, namely, that we are anxious to know what weapons are being purchased for the various land forces, and what for the naval forces, and what for the air forces?

The CHAIRMAN: I think we understand that, Mr. Drew.

Mr. DREW: I was only trying to avoid any misunderstanding, Mr. Chairman.

The CHAIRMAN: I do not think there is any misunderstanding on that point.

Thank you, Mr. Mackenzie.

(The witness retired).

Now, Mr. Bryce.

Mr. R. B. Bryce, Assistant Deputy Minister of Finance called:

The WITNESS: Mr. Chairman, I understood that you wish to have from me a description of the role of the Treasury Board and the Department of Finance in dealing with defence expenditures to complete, to some extent, the understanding of the committee of the roles of the various bodies and agencies. I had intended to speak from a few notes, but in view of the hour, I think it might save time if I just read four or five paragraphs which I have here. It would only take me a few minutes.

Mr. DREW: If this is profered in the same form as that of Mr. Mackenzie's presentation, it might be helpful if we had it before us.

The WITNESS: I am afraid I have not got copies. I am sorry.

Mr. MACDONNELL: Will the witness have it profered later?

The WITNESS: Yes. I shall have it mimeographed and given to the clerk.

The formal procedures and responsibilities of the Treasury Board in dealing with defence expenditures and related matters are much the same as in regard to similar matters relating to other departments, with some modifications in detail to take account of the much larger size and number of the transactions and of the elements of the program and establishments. The major decisions in regard to the defence program, budget, and establishment are of such importance, however, that they are made by the Cabinet or by the Cabinet Defence Committee in the first instance, and the Treasury Board does its work within the framework of the policy so determined. The Department of Finance prepares material for the use of the Minister of Finance at the Cabinet or Cabinet Defence Committee in considering matters relating to defence expenditure. For this purpose the officers of the department consult frequently and closely with the officers of the Department of National Defence and of the defence forces, and where necessary, I might add, of the Department of Defence Production. The form and nature of such consultations do not follow a formal or fixed pattern, but depend upon the circumstances in each case.

The Treasury Board consider and take decisions upon, or make recommendations to the Governor in Council upon, the following types of question relating to defence expenditures:

- (a) details of defence estimates within the general program and budget approved by the cabinet;
- (b) changes in the details of the estimates that are recommended by the minister or the Department of National Defence during the year, and which require transfers between allotments established within the defence appropriations.
You may recall that at the back of the estimates there are supporting details which constitute the allotments that bind the department, unless the Treasury Board approves a transfer among them.
- (c) the authorization of specific construction projects within the defence program, many of which cannot be finally settled at the time the estimates are approved;
- (d) changes in the scales of pay and allowances and the various regulations relating to pay and allowances and the conditions of service in the forces;
- (e) special pension cases and problems. Formerly the board authorized all pension payments, but the routine cases are now dealt with

directly within the forces and the Department of National Defence, under the recent amendments to the Act;

- (f) certain other special types of transactions, some of a relatively minor but troublesome nature, such as settlement of damage claims, ex gratia payments, special travel and removal claims falling outside the normal regulations, payments of capitation rates to other countries in respect of materials and services provided to the Canadian forces, and purchase of office equipment;
- (g) allotment of funds for capital assistance projects undertaken by the Department of Defence Production under the Defence Production Act and related appropriations, such as Votes 77 and 681.

It may be noted that the Treasury Board do not consider and deal with the procurement contracts for the Department of National Defence, which are handled directly by the Governor in Council, in accordance with the details of the Defence Production Act.

In addition to the matters dealt with by the Treasury Board and the Cabinet Defence Committee noted above, the Department of Finance

- (a) assists the Minister of Finance in reaching agreement with the Minister of National Defence on the rank structure for the Canadian forces within the total number of forces authorized by the Governor in Council. In other words, in setting the number of colonels, brigadiers, sergeants, privates, and so on.

The two ministers jointly are responsible for setting that up.

- (b) In the working out with the defence department and forces, the chairman of the chiefs of staff, the Department of External Affairs and others of the arrangements with other countries under the North Atlantic Treaty, and the preparation of messages, instructions, and reports for Canadian representatives taking part at meetings of the North Atlantic Treaty Organization, and
- (c) In the working out, with other departments and agencies various financial and economic measures required to implement the defence program and offset any unfavourable economic effects of defence expenditures.

That really relates to various economic matters which I presume are not of direct concern to this committee.

Finally, I should mention of course the Comptroller of the Treasury and his organization of disbursing and accounting offices. They play a very large role in the administration of defence expenditures. But I understood that you propose later, if necessary, to get a statement directly from Mr. McIntyre about that, so I did not endeavour to cover it except to summarize, in brief form, the role of the Department of Finance and of the Treasury Board with which we are concerned.

Obviously a great many of the items with which we deal are essentially policy items, but I think it would be of interest to the committee to know how the machinery works in reaching those decisions.

The CHAIRMAN: In the memorandum which you suggest you will file with us, will you have more information than you have already given us?

The WITNESS: I was proposing to file only this brief memorandum, but I can elaborate on it.

The CHAIRMAN: The information you have given us, I think, is sufficient. My purpose in asking you was to make sure all you wish to say is on the record. I feel that the information which has been given to us by Mr. Drury, Mr.

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Mackenzie and yourself will be useful for later committees. We want to make sure that we have on the record what you feel would be sufficient for our purpose.

The WITNESS: Yes.

Mr. STICK: I was going to ask a question, Mr. Chairman. Will Mr. Bryce be available to us later on to go into this? I was going to ask a question about the frozen assets we have over there, but I presume that will come up later, and that this is not the time to ask about them.

The WITNESS: That is right.

By Mr. Drew:

Q. Well, again only seeking something in the way of an illustration of method and perhaps there is an advantage in taking the same illustration as an example, Mr. Bryce, what I was discussing before, in the case, for instance, of a decision or in the case of the consideration of the purchase of something that costs a substantial sum of money like two jet transport aircraft, would the fact that the order was being, or rather would the fact that the Department of National Defence or Department of Defence Production indicated that it wished to buy a certain type of aircraft be the deciding factor or would the Treasury Department go into the question of whether some consideration should be given to the \$8 or \$9 million which had been spent by the Canadian government to back up an aircraft that was being manufactured in this country—would that be decided by the Treasury Board or would the simple matter that the decision had been made by the Department of Defence Production be taken as a sufficient basis for proceeding with the expenditure?—A. Well, sir, in the appropriations and estimates of the department there will be an item for procurement of aircraft and if this purchase comes within their budget the actual procurement, the choice of the aircraft and the actual price at which they are procured will not normally come before the Treasury Board. The procurement contract will go to the Governor in Council in due course from the Minister of Defence Production, but eventually as it is within their budget and program we are not further concerned. In other words, the choice of the particular aircraft and the price would be regarded primarily as an administrative problem within the responsibility of an individual minister rather than collectively unless the matter was large enough to merit the consideration of the cabinet itself.

Q. Then, I take it from what you say that the question as to whether the abandonment of one type might mean the failure to reap the benefit from certain expenditures would be a question of policy with which you would not be concerned?—A. We would, sir, ordinarily, in establishing the budget for the department at the beginning of the year. We will study their aircraft program in some detail and the Treasury Board and the Minister of Finance will be concerned with the types of aircraft that they are proposing to purchase and the reasons given in support of it, but any amendment, any detail in the course of procurement as long as they are within the general budget will be regarded as the responsibility of the minister directly concerned unless it raises major questions of policy which the cabinet feels they should consider.

Q. Well, again as a matter of information and having regard to the fact that this is a matter of common interest at the moment, could you tell us whether in the particular case authorization was given for the purchase of these aircraft or a memorandum was made available to the Treasury Board explaining why it was not regarded as desirable to proceed with the construction of jet airliners with which the government had been experimenting and on which development expenditures had taken place?—A. As I recall that particular case, sir, the transaction did come within the general budget of the

department and consequently did not involve any reference to us for consideration in regard to the choice of a particular type of aircraft.

Q. So that your recollection is that the decision was not one that was reviewed by the Treasury Board?—A. Not as such, sir.

By Mr. Quelch:

Q. Will Mr. Bryce give us the names of the persons who constitute the Treasury Board today?—A. I would be glad to do so. There is an order in council setting up the board and I will have that done.

Q. With due deference to you and other senior officers present, I wish to protest about Mr. Bryce referring to the army as being made up of nothing but brigadiers, colonels and sergeants.

Mr. DREW: Before we adjourn there is still the subject of when we meet again, and I do repeat my remarks that having regard to the time—we have only to look at the calendar to see how close we are to Christmas—and the desirability of having the information in the time at our disposal we should meet tomorrow, and while I recognize your desirability in the chair and while I recognize your qualifications to be in the chair, at least if you cannot be here I think a deputy chairman should be appointed for tomorrow because in the nature of the evidence outlined a discussion is going to relate to general activities of the department involved.

The CHAIRMAN: Because of the season I do not wish to fight with you.

Mr. DREW: Will we meet tomorrow?

The CHAIRMAN: No, the next meeting is on Tuesday. We need time to obtain the information.

Mr. DREW: Now, Mr. Chairman, we have got on very amicably this morning, but let us not get away from the fact that if we do not meet until Tuesday it could only be described as an intention to make this committee ineffective in this session. It is perfectly clear that we are not going to have enough meetings at the very outside to effectively cover the information that this committee should have if it really wants to get all the information about defence expenditures. Now, there is not any reason why this committee should not meet tomorrow.

Mr. BLANCHETTE: I was just going to observe that there are a lot of committees finishing and yesterday the public accounts committee, to which a number of the members of this committee belong, was at the instance of Mr. Fleming's strong representations called for tomorrow, and there is a lot of overlapping of these committees. I do not see how we can carry on with committees, some of which are finishing up in the last couple of days.

Mr. MACDONNELL: What about Monday?

Mr. DREW: I would suggest that—

The CHAIRMAN: Mr. Drew, I started out to say that we have asked for information and I have discussed the matter with the officials of the department and asked them to give us every bit of information available. They are working as hard as they can to collect that information. They would not like to bring half-baked or incomplete information and then have the question raised: Why can't we have the answer on this today? Why was not the whole answer brought in?" The House has yet another week to live, I think.

Mr. DREW: I hope you are not regarding that amended motion before the House as a want of confidence motion?

The CHAIRMAN: By common consent we agree that we will sit another week. We will try during the week to get some of the information. I will speak to the departmental officials and ascertain whether the information is

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ready. If it is ready I have no objection to calling a meeting on Monday. There is no reason I know of why that should not be done if that is the wish of the committee.

Mr. STICK: Mr. Chairman, we have a steering committee on this committee. Mr. Drew's suggestion is a reasonable one, but I think if we leave it to the steering committee—

Mr. DREW: Which one, tomorrow or Monday?

Mr. STICK: Mr. Chairman, I think as we have a steering committee we should leave the matter to be dealt with by the steering committee, to give consideration to the suggestion which has been made by Mr. Drew. They might find it possible to accommodate him. But we have a steering committee and I suggest that that steering committee do its work.

Mr. DREW: Mr. Chairman, why delegate to the steering committee our responsibility. We should decide what we want to do. I should think we ought to meet tomorrow, or at the latest on Monday; and I repeat my request for tomorrow. I think this committee is not going to be able to do its job, even the very limited job it might hope to do during this current session. There is only one course open to me as I see it, and that is to test the committee. I move that this committee when it adjourns today meet at 11 o'clock tomorrow morning.

The CHAIRMAN: It has been moved by Mr. Drew that this committee meet tomorrow morning at 11 o'clock.

Mr. DREW: If the chairman will undertake that we will meet at 11 o'clock on Monday, I am prepared to withdraw my motion; otherwise I can only regard it as a desire not to meet, but a desire to delay the whole committee.

The CHAIRMAN: I think it is just as well not to pass up that accusation, that there is a desire to stifle the committee. I can assure the committee that there is no such thought in my mind. I am just as anxious as any member on this committee to get on with our work. It is my money as well as everybody else's money. We are all concerned with it. There are billions of dollars being spent, and I want to know about that expenditure as well as anyone else. I would point out, however, that at the present time there are two things involved: there is the collating and obtaining of this information, and that is not just as easy as pushing a button, and it has to be intelligently presented in a form that is easily understood. The next matter is that there have been commitments by members for other committees. Now, I indicate that it might be quite possible that we could meet on Monday.

Mr. DREW: All right then, let's meet on Monday.

The CHAIRMAN: Mr. Stick has pointed out something which I think is important, that we should have a meeting of the steering committee and leave it to the steering committee to decide. I suggest we leave the matter to the steering committee. I think we will work it out.

Mr. MACDONNELL: And they might find it possible for us to sit on Monday.

The CHAIRMAN: Yes.

Mr. MACDONNELL: I think we should be able to have a meeting on Monday because even though the officials will not have an opportunity to bring down all the information, there will be enough of it available for us to be able to proceed on Monday. Well, if they can do it, that is O.K., and what they are not able to produce for our use at the meeting on Monday can be brought forward at our next meeting. I do not think that anyone believes there is not a great deal they could give us on Monday.

The CHAIRMAN: I think we will be able to call the committee on Monday, but in view of what Mr. Stick said I think we should have a meeting of

the steering committee. I have indicated what my view is, I do not think there will be any great difficulty about arranging a meeting for Monday morning.

Mr. DREW: There is only one point further that I would like to point out and it is this; it is quite possible to adjust matters by a motion of the House this afternoon. There has been further information of a general nature which it has been indicated ought to be presented to us and it can be presented to us without the necessity of inquiry as to whether the experts are going to have the other information available. I wish to repeat my motion, that when this committee rises, it rises to meet again at 11 o'clock tomorrow.

The CHAIRMAN: It has been moved by Mr. Drew that the committee when it rises today sits again tomorrow morning at 11 o'clock. All those in favour? Those opposed?

I declare the motion lost.

I will call a meeting of the steering committee for the purpose of discussing this matter further.

The committee adjourned to the call of the chair.

APPENDIX I

OTTAWA, December 6, 1951.

THE ROLE OF THE TREASURY BOARD AND THE
DEPARTMENT OF FINANCE IN DEALING WITH
DEFENCE EXPENDITURES(Statement by R. B. Bryce, Department of Finance)
presented this day

1. The formal procedures and responsibilities of the Treasury Board in dealing with defence expenditures and related matters are much the same as in similar matters relating to other Departments, with some modifications in detail to take account of the much larger size and number of the transactions and of the elements of the program and establishments. The major decisions in regard to the defence program, budget, and establishment are of such importance, however, that they are made by the Cabinet or by the Cabinet Defence Committee in the first instance, and the Treasury Board does its work within the framework of the policy so determined. The Department of Finance prepares material for the use of the Minister of Finance at the Cabinet or Cabinet Defence Committee in considering matters relating to defence expenditure. For this purpose the officers of the Department consult frequently and closely with the officers of the Department of National Defence and of the Defence Forces, and where necessary, of Defence Production. The form and nature of such consultations do not follow a formal or fixed pattern, but depend upon the circumstances in each case.

2. The Treasury Board consider and make decisions upon, or make recommendations to the Governor in Council upon, the following types of question relating to defence expenditures:

- (a) details of Defence estimates within the general program and budget approved by the Cabinet;
- (b) changes in the details of the Estimates that are recommended by the Minister or the Department of National Defence during the year, and which require transfers between allotments established within the Defence appropriations;
- (c) the authorization of specific construction projects within the defence program, many of which cannot be finally settled at the time the Estimates are approved;
- (d) changes in the scales of pay and allowances and the various regulations relating to pay and allowances and the conditions of service in the Forces;
- (e) special pension cases and problems. Formerly the Board authorized all pension payments, but the routine cases are now dealt with directly within the Forces and the Department of National Defence, under the recent amendments to the Act;
- (f) certain other special types of transactions, some of a relatively minor but troublesome nature, such as settlement of damage claims, ex gratia payments, special travel and removal claims falling outside the normal regulations, payments of capitation rates to other countries in respect of materials and services provided to the Canadian Forces, and purchase of office equipment;

- (g) allotment of funds for capital assistance projects undertaken by the Department of Defence Production under the Defence Production Act and related appropriations, such as Votes 77 and 681.

It may be noted that the Treasury Board do not consider and deal with the procurement contracts for the Department of National Defence, which are handled directly by the Governor in Council, in accordance with the details of the Defence Production Act.

3. In addition to the matters dealt with by the Treasury Board and the Cabinet Defence Committee noted above, the Department of Finance

- (a) assists the Minister of Finance in reaching agreement with the Minister of National Defence on the rank structure for the Canadian Forces within the total number of Forces authorized by the Governor in Council,
- (b) takes part in the working out with the Defence Department and Forces, the Chairman of the Chiefs of Staff, the Department of External Affairs and others of the arrangements with other countries under the North Atlantic Treaty, and the preparation of messages, instructions, and reports for Canadian representatives at meetings of the North Atlantic Treaty Organization, and
- (c) works out, with other Departments and agencies concerned, various financial and economic measures required to implement the defence program and offset any unfavourable economic effects of defence expenditures.

4. The Comptroller of the Treasury and his disbursing and accounting offices play a large role in the administration of defence expenditures. It is understood, however, that the Committee is to obtain a special statement on this subject later.

NOTE: This statement was distributed to the Members of the Committee.