SESSION 1932

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

TUESDAY, MARCH 8, 1932

No. 1

Reference.—Price of Gasoline

WITNESS:

Victor Ross, Vice-President Imperial Oil, Ltd.

Appendix.—Clarkson Report, 1926

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1932

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,
TUESDAY, March 8, 1932.

The Committee came to order at 11 a.m., Mr. Matthews, presiding.

Members present: Messrs. Arthurs, Baker, Beynon, Bothwell, Donnelly, Dorion, Euler, Fafard, Hanson (*York-Sunbury*), Hepburn, MacKenzie, MacMillan (*Saskatoon*), Matthews, McPhee, Peck, Perley (*Qu'Appelle*), Pettit, Power, Ralston, Sanderson, Smoke, Stanley, Spencer, Vallance, Willis.

The Committee took under consideration the reference with respect to the price of gasoline to the Canadian consumer.

The Chairman outlined the proceedure to be adopted.

Mr. V. W. Holland of the firm of George A. Touche & Company, Chartered Accountants, retained by the Committee, was in attendance.

Mr. F. G. Green of the staff of the National Research Council, a technical expert on gasoline was present at the service of the Committee.

A letter written by the Clerk to the Hon. Mr. Stewart, Minister of Highways of the Saskatchewan Government, advising of the matter before the Committee and offering to consider any representations he might care to make, was read and discussion followed as to the propriety of extending a like invitation to the other provincial Governments.

The Chairman agreed to extend a like invitation to the other provinces.

The Chairman directed the attention of the Committee to the question of asking the House for leave to sit while the House is sitting, when it was decided to leave the question in abeyance till next week.

Mr. Donnelly, Mr. Bothwell and other members then explained the reasons which prompted the present enquiry. (See printed Minutes of Evidence.)

Mr. Victor Ross, Vice-President of Imperial Oil, Limited, was then called, sworn, examined and discharged.

The witness produced and filed with the Clerk a copy of a printed "Report of G. T. Clarkson on The Prices of Gasoline and Oils Sold to the People of Ontario," dated January 11, 1926, as made to His Honour, the Lieutenant Governor of Ontario. (See Report printed as Appendix "A" hereto.)

The witness agreed to file various documents referred to in his evidence.

The Committee adjourned to the call of the Chair.

A. A. FRASER,
Clerk of Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
March 8, 1932.

The Select Standing Committee on Banking and Commerce met at 11 o'clock a.m. to consider the following reference:—

> That, in the opinion of this house, the price of gasoline to the Canadian consumer has for some time past been too high and that this matter should be referred to the select standing committee on banking and commerce to investigate and report.

The CHAIRMAN: Gentlemen, at the last meeting of the committee—the only meeting we have had this year—you appointed a committee to consider procedure in regard to this inquiry and to secure witnesses. The committee met on Saturday and decided, with your approval, that we should proceed in this way: First of all, the sponsor of the resolution will make his statement and will be given what time he desires to make a complete statement. Following that, Mr. Bothwell, who has been associated with Dr. Donnelly in considering this question, will supplement the statements of Dr. Donnelly and present to the committee such facts as he has as a basis for questions he would like the companies to answer. Following that an invitation will be given to any member of the committee to make statements with regard to questions affecting the inquiry that have not been covered by the previous speakers. Following that the Imperial Oil Company, represented here to-day by Mr. Ross, will reply to the statements in general terms. Then we will know more particularly what line of procedure to take in regard to the inquiry because the outline of the charges—if you call them charges—will have been made. Now, first of all, following this procedure, if the committee approves I will call upon the sponsor of the resolution in the House of Commons, Dr. Donnelly, to make a statement showing the causes that led him to demand an investigation by a committee of the House of Commons. Mr. Campbell suggested that we communicate with the province of Saskatchewan and ask them to be present if they care to come to the hearings of this committee, and we dispatched this letter written by Mr. Fraser, the clerk of the committee:—

March 5, 1932.

Hon. A. C. STEWART, ESQ.,
Minister of Highways,
Regina, Sask.

Dear Sir:

The House of Commons committee on Banking and Commerce has presently under consideration an inquiry into the price of gasoline to the Canadian consumer. The committee proposes to call the large oil companies operating in Canada to give evidence and produce their books showing the costs throughout their operations, with a view to determining whether the companies are charging a fair price or otherwise.

The committee have engaged a technical expert on gasoline and an auditor.

The committee are informed by Saskatchewan Members that your Government is interested in this subject and I am instructed to advise that if you care to submit any evidence or be represented every possible courtesy and facility will be accorded your representative at committee meetings.

Yours very truly,

A. A. FRASER,

Clerk of Banking and Commerce Committee.

Mr. VALLANCE: Mr. Chairman, might I ask whether the committee suggested that the other provincial governments which are carrying on a similar investigation be given an opportunity to appear here. There are three of the provincial governments to-day doing just what Saskatchewan is doing. Why single Saskatchewan out?

The CHAIRMAN: I did not know that they were.

Mr. MCPHEE: I understood the other day when this matter was suggested by Mr. Campbell that it was not going to be acted upon. We appointed a sub-committee. I suggested that the other day. Now, apparently, the letter has gone out without it being submitted to the main committee.

Hon. Mr. MACKENZIE: I think it is only reasonable that if one province is asked to co-operate all provinces should be asked.

Mr. F. R. MCMILLAN: I move that a similar invitation be extended to the other provinces.

The CHAIRMAN: We did not ask for co-operation. We advised him that if he cared to submit any evidence or be represented every possible courtesy would be accorded him. We did not call him here; and I will be very glad if it is the wish of the committee to write a similar letter to any other province. If that is the wish of the committee, certainly that will be done.

Mr. BAKER: This letter does not obligate us as to expenses. They will pay the whole expense?

The CHAIRMAN: Yes.

Mr. VALLANCE: It is an understood thing in all committees of this house that any individual, any Canadian who is interested, may appear before a committee of this house. Why should an invitation go out—even a suggestion to them that they do appear unless that this committee is prepared to pay their expenses? It is an understood thing that is the reason why we have these committees, because the public can be heard in these committees whereas they could not be heard on the floor of the house.

The CHAIRMAN: I did not know that the other governments were carrying on a similar inquiry. We will certainly be pleased to write similar letters to other provinces; but Mr. Campbell had been in communication with Saskatchewan and had pressed the matter and the committee understood it was the desire of the committee that that should be done. However, that will be attended to. We will proceed with Dr. Donnelly.

Mr. DONNELLY: I have very little to add in presenting the subject of this investigation before the committee to what I have already said in the house on February 11 in connection with this investigation into the prices of gasoline, and, I think, that probably I would do well at this point to submit the speech which I made in the house on February 11 to this committee in the way of evidence. At that time in the house I endeavoured to show, first of all, the extent to which gasoline has been used and is being used throughout the Dominion of Canada and how, for the last two years, it has grown in importance until at the present time we are using something in the neighbourhood of

600,000,000 gallons of gas. It has entered into the cost of many things which the people of Canada use. We find it is used, not only as said at that time, for travel, but we also find it used for productive purposes. We find our farmers, for example, in western Canada using it not only in their cars but they are using it also in their gas engines, in their motor trucks, in their combines and in many operations of the field which help to increase the consumption of gasoline, and this is a great factor in the cost of production to our farmers in western Canada to-day. Not only is that true with regard to farmers, but it is also true with regard to fishermen who have gasoline launches used for fishing purposes, and in many other of our primary operations or primary industries gasoline enters to a great extent in their production and affects the cost of production. The result has been that for the last two or three years many of the people, especially in my constituency, which borders on the American line, have been wondering why it is that on the south side of the line our neighbours buy gasoline at a price so much less than on the north side, and gradually this agitation has spread until last year we found the newspapers throughout Canada, from one end to the other, beginning to take this matter up, and we found, as I said in the speech on February 11, in the Montreal *Standard* of November 28 a comparison of prices and where these prices were in 1930. The difference in price between Halifax and New York, September 1, was 4·44, and the difference in price between Halifax and New York on September 1, 1931, was 8·04. Take two cities close together—take, for example, a border city on September 1, 1930, the difference in price was 1·84 and on September 1, 1931, the difference in price was 6·84. In other words, we find a difference in the two of practically five cents a gallon. That is, in these cases where I am comparing the prices, the state tax is taken off and the gallon in each case has been reduced to the Imperial gallon. The comparison is equitable. It is the same gallon without the state tax. So, people wondered why this difference in price should exist; why there should be a difference. Now, here again, take one of the Chicago papers, the *Chicago Journal of Commerce*, Saturday, February 13, 1932, we find gasoline in the Oklahoma fields at that time quoted there on the market: U.S. Motor, below 57 octane, $2\frac{3}{4}$ and 3, U.S. Motor, 57-64 octane, $3\frac{1}{2}$ and $3\frac{3}{4}$, U.S. Motor, 65 and up octane, $3\frac{3}{4}$ and 4.

Now, we wonder why. At four cents a gallon that would be practically 4·8 cents—four cents a gallon would be 4·8 Imperial gallon without tax. Now, we wonder why when gasoline sells at that price in the Oklahoma field we in Ottawa should be paying twenty-two cents a gallon. These things probably can be explained by our oil companies and probably the difference can be explained away, and I think it is only fair and only just to the oil companies and to the people generally that this should be cleared as to why this difference in price between the American price and the Canadian price of gasoline, which the Canadian consumer has to pay, should exist. For this reason, Mr. Chairman, I have had this resolution placed on the order paper that we investigate the price of gasoline, and I may say further that I have here the *Oil and Gas Journal* of March 3, 1932. Now, here is the Oklahoma field again: U.S. Motor 60-62 400, March 1, $3\frac{1}{8}$; 60-62 400 $3\frac{1}{8}$, $3\frac{1}{4}$; 64-66 390, U.S. Motor $3\frac{3}{8}$, $3\frac{1}{2}$, and so on down the list, the different prices of gasoline in the different fields.

Now, as I say, the price of gasoline in the United States at the present time as compared with the price of gasoline here in Canada has caused a great disturbance among the people of Canada. I might say only this, and then I am through, that when comparing our prices in the speech I made on the 11th of February I showed that whereas on the 1st of September, 1931, the difference in price between the eight average cities in Canada was eight cents a gallon, that in 1930 with the same cities the average difference in price was 4·5 cents or four and a half cents, or, in other words, there was three and a half cents difference. The spread between the two was greater in 1931 than it was in 1930. That is something which we are unable to explain, and it is for this reason I have had this resolution placed on the order paper.

The CHAIRMAN: Thank you, Dr. Donnelly. Now, if Mr. Bothwell will kindly address the committee we will hear him.

Mr. BOTHWELL: Mr. Chairman, I do not know what I can add to what Dr. Donnelly has said. Last year, I think it was on the 12th of June, I brought this matter to the attention of the House on account of information that had come to my attention and complaints that had been made in various parts of the country regarding the price of gasoline. After putting certain facts on Hansard on the 12th of June, the oil companies answered that by a report in the Financial Post of June 18. That is what an oil company did, but who was responsible for the answer I cannot say; but the start of the reply of the oil company is as follows:—

> Oil company executives interviewed by a representative of the Financial Post as to criticisms made by certain politicians that gasoline prices in Canada are excessive, responded by pointing that drops in crude oil prices had been followed downwards to the full extent by the price of gasoline and other products offered to the public of Canada.

The article proceeds to show the prices and the downward trend that has taken place. That is an authoritative statement from the oil companies, and most people who are interested in oil take exception to the statement. There is no doubt, as Dr. Donnelly has said, that there is a considerable difference in the price of gasoline as between the United States and Canada. That difference in price may be justified, but the ordinary Canadian consumer does not believe that the difference is justified.

After an investigation was announced, the Retail Merchants' Association of Saskatchewan, the oil and gas section of which has been very much interested in this problem, sent a telegram to the Prime Minister which reads as follows:—

> We congratulate your government on steps taken to investigate hardships and numerous complaints in present system of distribution of gasoline. We see by press reports that the Banking and Commerce Committee of Parliament will investigate prices and will take into consideration the tariff and freight rates in comparing American and Canadian prices. We respectfully request that this inquiry be made broad enough to investigate fully present methods of distribution, not only of gasoline but of petroleum products and oils. Have on file hundreds of complaints of shortages under present system and in the interests of our Canadian public we urge the Parliamentary Committee be given the scope and powers of a Royal Commission and that a hearing be held in Saskatchewan at Regina where the evidence of our association will be submitted and many members will gladly testify regarding abuses arising out of present system of distribution.

That is from W. L. McQuarrie, Provincial Secretary, Retail Merchants' Association, and it is dated February 12, 1932.

In this investigation it seems to me, Mr. Chairman, that the only way we can arrive at anything definite is by having an investigation into all costs of the production of gasoline in Canada. That is, we will have to arrive at the cost of the crude oil in the various fields from which crude oil is brought into the country, freight charges, in fact all charges in having it landed down here, also the cost of refining in the various refineries in Canada. And not only from the Imperial Oil Company but from the British American Oil Company and from any oil company that operates refineries, and whether it is going to be fair to the different oil companies to have them at a public hearing of this kind giving evidence of costs and the internal working of their plants, I do not know. However, we expect to have all of the oil companies here and I presume it will be as fair for one as for the other. In any event, that is the way I think the investigation will have to be conducted to get all the details right from the oil well to the consumer in Canada.

Just to add another word, as to the difference in price, this was sent to me. This is an advertisement in the St. Louis *Daily Globe-Democrat,* an advertisement by the Standard Oil Company of which, I believe, the Imperial Oil is a subsidiary, or in any event the Standard Oil holds the controlling share in the stock of the Imperial Oil. They advertise 10 gallons of gasoline for a dollar, $7\frac{1}{2}$ cents, plus $2\frac{1}{2}$ cents tax.

Mr. VICTOR ROSS: Excuse me, Mr. Bothwell, what Standard Oil Company is that?

Mr. BOTHWELL: This is the Standard Oil Company, Indiana.

Mr. VICTOR ROSS: No connection.

Mr. BOTHWELL: Maybe no connection. But it is advertisements of this kind that we may be able to clear up in this investigation because that particular advertisement coming to the attention of a Canadian consumer immediately makes him believe that he is paying away too high for the gasoline that he consumes. That advertisement is dated December 29, 1931.

There is all sorts of evidence along that same line. I do not think the committee will gain anything by a repetition of it. The reason for the investigation has been set out to the committee by Dr. Donnelly, and all that I can add is just the manner in which I believe the investigation should be conducted.

Hon. Mr. MACKENZIE: Might I ask if the exact terms of reference have been placed as a matter of record in the evidence this morning?

Mr. HANSON: Yes, they are pretty wide.

The CHAIRMAN: Now, gentlemen, we have heard from Dr. Donnelly, the sponsor of the resolution, and from Mr. Bothwell, and now I am going to ask any other member of the committee who so desires to speak and lay before the committee any facts he may have in regard to prices of gasoline anywhere in Canada, confining himself, of course, to matters that the other gentlemen have not discussed, points they have not brought out; but I want the members of the committee to feel that it is wide open for them to say anything they desire. I have no desire to limit anyone from speaking. It is not my wish to do that. I want anyone to feel quite free to make any charges he likes in this matter before I call on Mr. Ross.

Mr. WILLIS: Mr. Chairman, may I ask as to whether there will be a representative of the Shell Company before this committee.

Mr. HANSON: Yes, if the committee so desires.

Mr. WILLIS: I think it is highly desirable.

The CHAIRMAN: We are going to ask representatives of the large companies in Canada to come here, and any other companies the committee may ask or may desire to hear, and if the committee so desires we will include the Shell Company, or any other company in Canada.

Mr. DONNELLY: As a member of the sub-committee, I wish to make it perfectly plain to the Imperial Oil that they were not singled out as the only oil company or that we had any antagonism against them in any way, shape or form. In picking out some company to come here, it was either the Imperial Oil or the British American, they being the largest, and we decided that the Imperial Oil Company should come first; but there was no special antagonism against them any more than any of the other companies.

Mr. MacMillan (Saskatoon): There is another aspect to this situation. There is the question of distribution. Up till now the agents of the company have had to pay for evaporation. From that point of view I understand this year the companies have given them leeway of something like 1 per cent. There is a great shrinkage in gas, due to climatic conditions and when the oil company representatives are discussing the problem I would like them to say something about that aspect of it, because it has caused these men in Western Canada a great deal of trouble.

Mr. Vallance: It seems to me that the basis has been laid by Dr. Donnelly and Mr. Bothwell, and I do not think it can be enlarged upon by any member of the committee.

Regarding the extent to which we might press the oil companies, I think that as the committee develops and the oil companies appear before the committee, or the dealers or whoever you call, it will be much easier both on the committee and on the oil companies. I think it would expedite matters greatly if we could hear from one of the oil companies if there is one represented here this morning.

The Chairman: Mr. Victor Ross is here this morning representing the Imperial Oil Company. As Dr. Donnelly has said, the sub-committee appointed by you to invite oil companies to be present merely invited the Imperial Oil Company because, I think, their name came first into their minds because they are probably the largest company. This sub-committee is going to ask all the other companies to come; but in the meantime I am going to ask Mr. Ross who has come down here to address the committee. I should say it was intended by the company that Mr. McCloskey, a director, was to come. Mr. Ross might perhaps explain to the committee why Mr. McCloskey is not here this morning.

Mr. Victor Ross, called and sworn.

The Witness: Mr. Chairman, I am here alone without counsel, designedly, because I hope you will believe me when I say that I did not know just what this committee wanted. I am not competent to answer questions as to cost. I did not intend to mention this to the committee but the chairman has mentioned that Mr. McCloskey, a young Canadian who has been with us since boyhood, and who a year ago became a director, is not able to be present to-day. He is head of all the refineries. He is perhaps as good an authority on costs, that is, petroleum costs, as there is in America. He was ready to come but his wife dropped dead on Sunday and she is being buried to-day. He will be available to the committee in say a week.

I just want to say to Dr. Donnelly and Mr. Bothwell that so far as any rancour on our part against them is concerned for initiating this investigation, we think that they have done a duty to their country and perhaps a service to the petroleum companies by voicing this widespread clamour about the price of gasoline.

It is quite true that there is a decided spread between the American price and the Canadian price of gasoline. Dr. Donnelly has mentioned grades of gasoline, notably U.S. Motor. Well, I would say that every type of gasoline used in Canada is immensely superior to U.S. Motor. It has to be so because of the climate. It is also so because of the high gasoline taxes. A man who pays five and six cents a gallon more wants to buy a superior grade of gasoline. As to the superiority of the Canadian gasoline, I think we could refer you to the Department of Mines. Every year they analyze the Canadian gasoline which they pick up at service stations all over the country, and then they get samples from the United States. They have stated almost invariably that our Canadian gasoline was superior to the American product. However, even having regard to that, having regard to factors of freight, evaporation, higher manufacturing costs in Canada, and the very important question of exchange, which will all be supported by the investigations of your chartered accountant, there may be spreads between the Canadian and the American price. It is also true that there are very material spreads between the prices in different centres of the United States.

I was looking at the Petroleum News and I find that gasoline is selling at a certain price in Tulsa. It pays the freight rate to Detroit. Detroit calls on what is known as the mid-continent field, that is, Wisconsin, Oklahoma and Kansas for its gasoline supply. They absorb the 4½ cent freight rate and gasoline sells in Detroit at the same price as it does in Tulsa. I was looking at the gasoline figures of one State, Montana. There is a spread of 3½ cents between Butte and some other town,—I just forget the name at the moment, it will come to me later—but I know they are 70 miles apart.

The cheapest crude and the cheapest gasoline in the world is in Texas; but approximately gasoline sells in Detroit as cheap as in Texas with a long freight rate. Denver, which is a quarter of the distance away from the producing field that Detroit is, the gasoline price there is 6 cents over Detroit. That variation of price is due very largely to over-production of American refineries. The situation of gasoline in the United States is a good deal like the situation of coffee in Brazil. They call out the troops to keep the people from producing oil. They have had troops in Texas and Oklahoma to try and stop production; but I think the main reason why there is a disparity such as Dr. Donnelly quotes and Mr. Bothwell quotes—their comparisons are not quite right—is because they are comparing different grades of the product.

The Imperial Oil Company and the other Canadian oil companies are not fighting the American petroleum industry. They are fighting the biggest commercial racket that was ever known in American business. That is, the widespread and very general evasion of the gasoline tax in the United States.

By Mr. Hanson:

Q. That is what is called bootlegging?—A. That is what is called bootlegging. Detroit, for instance, which is often quoted as the bootleggers' paradise because it is surrounded by States that produce gasoline, more gasoline than they need. The jealousy between States of the Union and the enforcement of the inter-State commerce law is so strict that you can drive a tank wagon over any State line without being stopped. The minute a man gets on the other side of the line he has got a four, or five or six cent advantage over his competitor. The ordinary tank wagon, I should say, takes about 4,000 gallons. Well, if he gets across the line with a tank wagon full of gasoline he has $160 profit to start on. He collects the 4 cent tax from the customer and gives him 2 cents back in a cut in the price. The man who pays the tax, or the company who pays the tax—and the big companies must pay the tax because no company could tell its employees to do a dishonest act even if it was ethical—has to cut its price, and that has caused a general depression of the American price structure. Very competent authorities, State authorities, Federal authorities have estimated that the gasoline tax racket is costing the United States from 40 million to 100 million a year.

Some gentleman here has mentioned the Shell Union. Well, I happened to be looking at the Shell Union statement. That is a well managed British company operating in the United States. It lost 21 million in the first six months of this year. A dozen of the companies that I know of—I was looking at their statements—have lost 45 million in the six months. Dividends have been cut. The Shell passed its dividend, and the services on its senior securities are now in great danger. That is solely due to the fact that bootleg gasoline has depressed the general price structure.

It is very obvious to any student of cost that gasoline generally in the United States is selling to-day well below the equivalent cost of crude. And we see in Detroit, for instance, where this low market exists 30 companies have gone out of business in the last year, and there have been frequent applications to the courts by the smaller companies for an injunction against the other companies selling gasoline at such low prices. This is a matter of record.

The secretary of the American Petroleum Association gave evidence a few weeks ago before the Ways and Means Committee of Congress. He, I believe, compared the gasoline tax evasion racket to the prohibition racket. He said it approximated it in size.

By Mr. Hanson:

Q. Can you tell us, Mr. Ross, how long that gasoline war has been on in the United States?—A. Well, I will tell you,—it came on—of course it could not come before they began to put the tax on, but curiously enough it has progressed in size with the increase in the tax, and it has been the experience I believe in several states that the higher they put the tax the less the revenue. But Canadians pay the tax. There is no evasion, or practically no evasion in this country. I think the gasoline tax is the most efficiently collected tax and the cheapest collected tax.

Q. I suppose you would not express any opinion on the constitutionality of that tax?—A. I came down without a lawyer and I am beginning to be sorry.

The CHAIRMAN: Gentlemen, I would prefer—and I think you will agree with me—that Mr. Ross should continue to make his statement, following which any gentleman who wants to ask him any questions will be quite at liberty to do so providing he will rise so that we can see who he is, and one at a time.

The WITNESS: Well, Mr. Chairman, I have very little more to say. As I say, I came down here to find out what was wanted, and so that I could give it to you in the best shape possible. But I do want to say this, with all respect to this committee I do not think it is competent to go into this question. In 1925 the Hon. Howard Ferguson notified the oil companies that he was going to investigate them, just as this announcement came to us, and he started an investigation. We told him that we, for instance, our own company, made gasoline in Montreal and sold it in eastern Ontario. We made a lot of gasoline in Sarnia and sold it in the Canadian west; so that any investigation conducted by him could not be anything else but futile because he could not go outside the boundaries of the Province of Ontario. Something of the same situation existed then as has existed in the past six months. There was a clamour about the price of gasoline. We told Mr. Osler that if he would appoint a competent investigator, a man who after going into it for a month would know as much about it as we did, we would open our books to him, that is, we make a profit in Liverpool, we make a profit in Lisbon, or we make a profit in Montevideo; but we told him that he could have everything, including the National, which is our principal subsidiary, if a man took a hold of the job who could do it, and he appointed Messrs. Clarkson & Company. Clarkson came into our office with a list of questions in June of 1925, then under the leadership of a man named Guilfoyle who, I believe, is a very competent chartered accountant of high standing, brought in a staff of chartered accountants and went through our books. They went through the books of all the other oil companies as to the quality of the products, prices, and so forth. Clarkson was in there from June 1925 to January 1926. I do not think anyone would question his integrity or his authority; but he found that our earnings in the 5-year period from 1925 back to 1920, which were covered by the investigation, averaged 8 per cent per annum, and that was in a prosperous time.

I say that because I want the committee to realize that an investigation that will really get at the facts and not accept statements from a man like myself, or one of my associates, would take a great deal of time, and I think that the procedure is quite unfair to a company like my own—and unequally unfair to the other companies—because necessarily giving evidence here you disclose information about your business which is of great benefit to your competitors. We are not afraid of telling the chartered accountant, or anyone else you appoint what we told Clarkson; but Clarkson reported to Mr. Ferguson his findings but not the evidence.

If the committee goes on, why we will go along and we will facilitate the procedure in every way; but either for the committee or for ourselves I do not think it is a very good procedure. The company I represent is probably in as sound a financial position as any company in Canada. It has been fifty years in existence; it is a most conservative firm. As I say, Clarkson found it earned eight per cent per annum in good times, but it has not done that for two years, and it won't do it this year; it won't begin to earn its dividend in Canada this year. I think out of the dividends we pay, every dollar of dividends we pay in Canada we get sixty-seven cents from outside Canada, notably eight million dollars a year from operations in Peru, Colombia, and Ecuador. Our dividend may be large, but it is to my mind a very substantial thing that we should continue to pay these dividends. We have thirty to forty thousand shareholders in this country. Most of the American oil companies are in the position of the Canadian National railroad, except that they started with some money. They are not paying dividends; they are bankrupt. I don't know whether I am giving you gentlemen any information or not.

Mr. Hanson: You are not giving us any information about the National Railways.

Witness: Again, as I said before, I am not competent, but I can produce the people who can discuss those things. I imagine what you want is costs. I think if we establish costs and earnings on invested capital, that answers the questions. My business in the company has nothing to do with the technical operation of it. I have more to do with the cash, when there is any, than anything else. You have to take this into consideration when you are operating a business. In 1930, when the western farmer could not get his crop in, when he could not get anything from the trust company or from the bank or from any other place, we transferred our business overnight from a cash business to a credit business. That began in 1929, and continued through 1930. Our bills receivable are in the neighbourhood of five million dollars, which is a very substantial amount on our dividend, on our annual earnings. We expect to get that money back, because we expect the West to come back, because the farmer is a fellow who does not evade his debts, and because the individual amount is very small. But still the fact is when you are thinking about what you are going to charge for the products you have to keep in mind what your losses are likely to be. You go ahead along the present line of procedure, all right. I do not know whether I should bring a corps of lawyers down here, or not. I have not got anybody.

The Imperial Oil has been fifty years in existence, and it has never been in a courtroom yet on a major lawsuit, never had a lockout, never had a strike. That is, a very serious one. Its pay roll is a very large source of considerable strength to the business of the country. When you say we are charging too much for gasoline, we are prepared to go into an inquiry into that subject——

By Mr. McPhee:

Q. Have you a copy of the Clarkson report?—A. I had one this morning, but I gave it to some gentlemen.

By Mr. Donnelly:

Q. Would you file that report?—A. Yes. I think I gave it to someone.

Q. So that we might have it for reference.—A. Yes. This was printed not by us; I think it was printed either by the McColl-Frontenac Company—Mr. Irwin told me that he had a number, and if any member of the committee would like to have one, I would have them sent.

Mr. HANSON: I think we should have it either in the minutes or distributed.

Mr. POWER: Print it in the proceedings.

The CHAIRMAN: You have heard Mr. Ross's statement. I am sure that Mr. Ross would be glad to answer questions put by any member of the committee, questions that deal with his part of the business. I suppose the business is one which has large ramifications and many departments. Perhaps Mr. Ross may not be able to answer technical questions, but if there are any questions you would like to put to him, please stand up and do so.

By Mr. Bothwell:

Q. Mr. Chairman, there are a few questions I should like to ask, which might pave the way for other witnesses which may be called later.

In speaking of the taxes in the United States, Mr. Ross, and the bootlegging of gas, if I might use that term, what tax was it you were speaking of, production tax?—A. No, the gasoline tax.

Q. State tax?—A. Yes, the same as our tax.

Q. The same as what we might call road tax?—A. Yes.

Q. How many refineries have you in Canada?—A. Seven.

Q. Where are they located?—A. One at Halifax, one at Montreal, one at Regina, one at Calgary, one at Sarnia, and one at Ioco, Vancouver—the Imperial oil town of Ioco.

Q. I presume your crude to those different refineries comes from different fields?—A. Yes, sir.

Q. In the United States?—A. And South America, and a small amount from the Turner Valley.

Q. Take for instance, your Halifax refinery. Where will your crude come from?—A. Well, some of it would come from Colombia or Peru, which we produce ourselves. It may come from Texas. It would be Texas crude or mid-continent crude, mid-continent representing the three states I have mentioned, having a pipe line from the centre of the mid-continent field down to the gulf.

Q. Is that your own pipe line?—A. Oh, no, sir; it is a common carrier.

Q. Have you any pipe lines from the oil fields?—A. We just have one pipe line which we own through a subsidiary, which runs from our plant at Sarnia to Cygnet, Ohio; and the crude is moved from Texas to that pipe line. We command that major pipe line which carries crude about a thousand miles up from Texas.

Q. For instance, your Regina refinery, where does your crude come from to it?—A. Well, we use some Turner Valley crude there, but it mostly moves from Montana or Oklahoma by tank car.

Q. By tank car?—A. Yes.

Q. Now, you spoke of the number of shareholders that you had in Canada in the Imperial Oil.—A. Yes.

Q. The statement has been made that fifty-one per cent of the Imperial Oil is owned by the Standard Oil; is that correct?—A. Well, it owns more than fifty-one per cent.

Q. Do you know the percentage?—A. I think it is about—in my head, now—I think it is about sixty per cent.

Q. That is the Standard Oil?—A. That is the Standard Oil of New Jersey. We are very proud of our connection with it. I would just like to say there, possibly, if it is of any interest, that there is a foreign interest in our company, a stock interest of something approximating sixty per cent, maybe a little more. That is just about the same as the amount of our dividends that comes from outside of Canada. They are almost equal, or approximately equal.

Q. Then you mentioned also this National Petroleum News. Is that publication recognized by the oil industry as authoritative?—A. Yes, it is a standard paper. There are two or three but the National Petroleum News occupies a very high position.

Q. You, I think, told us that you could not give us any figures as to the cost of crude delivered to your refineries?—A. No, I cannot give it to you, but I could get it over the telephone.

By Mr. Donnelly:

Q. You referred to the difference in price between gasoline in Canada and in the United States, and you said it was largely due to the fact that gasoline in Canada was—A. No, I did not mean to say that.

Q. I understood you to leave the impression with the committee that one of the reasons for the difference in the price of gasoline was because the Canadian gasoline was a higher grade?—A. What I say is this; that generally the grade of gasoline in Canada is higher than the general grade in the United States. That has a very small thing to do with the price; it has very little to do with the price. There are three factors, evaporation, the increased cost of moving in Canada, and the greatly increased cost in marketing in Canada, account for the spread.

Q. Well, all those factors will be taken in account in 1930, as well as in 1931, would they not?—A. Oh, yes.

Q. How do you account for the great difference in price in 1931?—A. Because of demoralization of the American market.

Q. Because of the demoralization of the American market?—A. Yes. We base our prices according to what is known as the posted price of crude.

Q. You base your prices on what?—A. On the posted prices of crude.

By Mr. Power:

Q. What is that remark?—A. "Posted." They post a price.

By Mr. Donnelly:

Q. In fixing the prices that you refer to, do you have any communication with other companies in that regard, or is it done entirely on your own?—A. Well, there is no general fixing. Communication usually takes the form of abuse from our competitors. As the price of the mid-continent crude goes down, we follow it right away.

By Mr. Hanson:

Q. You fix the price, and they follow suit. We all know about that?—A. Generally, but not altogether. There are times when a little price war develops here and there. It has happened.

By Mr. Donnelly:

Q. As a matter of fact, between 1930 and 1931, something has enabled you to have a bigger spread between the Canadian prices and the American prices?—A. I think it is because we followed the posted prices. Our price is a good bit lower now than it was—like before the war, when crude prices were up, they are much lower than at the end of the war. Our price went down very much more rapidly and much ahead of other commodities, and it has stayed down. We have followed the policy very generally for years of adjusting the gasoline price according to the quotation of the price posted for crude in the mid-continent field which determines the value more like No. 1 northern does for grain in Winnipeg. The American refineries have not been able to do that. There has been to much gasoline in the United States. They have gone lower than the prices of crude.

Q. Would you care to tell this committee what it is that has enabled you not to follow the American refineries? There is something that has prevented you from having to follow it, otherwise we wouud be importing from those companies and selling just as low as they are selling down there. What is it that has enabled you to do that?—A. They are bringing stuff in. The Canadian Shell is bringing this stuff in.

Q. The independent distributors are not bringing it in?—A. I think a lot are. We are running more stuff lately. We are selling them some stuff, but our prices at which we have to sell them—when you see a service station's price posted up at twenty-five cents, or something like that—

Q. I beg your pardon?—A. When you see a service station, and see a price posted up, the natural inference would be that is what we get, but we do not get more than eight cents of the price. All our business, or a large part of our business, is wholesale business; and we sell to jobbers throughout the country, but we sell to larger companies too. The people who bring gasoline in, or used to bring gasoline in, don't cut their prices by reason of lower costs. They stack right up to our prices, or the prices we have to charge.

Q. Will you sell to any company irrespective of what they may sell it for?—A. We try not to. We try not to sell to a fellow that cuts prices.

Q. When you sell to a man at a service station, you practically compel him to sell at your price?—A. No, we cannot compel him.

Q. If he does not, you will not sell him any more?—A. We would generally not, because he is hurting another customer of ours in the same town.

By Mr. Vallance:

Q. I suppose you import most of your crude oil?—A. Oh, yes.

Q. You also export large volumes of gasoline?—A. No, not so very much. We have very little export. We have been sending a lot of—our boys at the Sarnia laboratories produce a very very high grade of lubricant—I do not want to use the committee for advertising purposes so I don't mention its name,—and it is going to London. The Old Country seems to like it. We have made some shipments over there.

Q. This is a question I should like to ask you. I understood you to say that you did export some gas. Have you any knowledge as to just how much the cost is to the consumer in the country to which you export? Is it more or less or equal to the price paid by the Canadian consumer, we will say, in western Canada?—A. Well, it would be higher. It would be higher. For instance, the British use a great deal of benzol for mixing with gasoline. It makes a very excellent motor fuel. Well, the difference there is nine cents. I think I would say that in countries similar to Canada, like Australia and Argentine, the price of gasoline is materially higher than it is here.

Q. So that you say you are not exploiting the Canadian consumer in order to make it possible for you to export any amount of gasoline?—A. Oh, we practically export no gasoline.

Q. As far as your company is concerned?—A. Oh, the price structure in Canada is based entirely on cost.

Q. So that as far as your company is concerned, would you say your export price would not have any bearing on the Canadian price?—A. No. We have to export some, but there is no export price——

By Mr. Donnelly:

Q. I should like to ask another couple of questions, if I may. Would you care to say anything, Mr. Ross, as to the comparative cost of distribution of gasoline in Canada and the United States?—A. Well, I would say that it would be naturally higher. It must be higher, except in parts of the United States which resemble a good deal of Canada; that is, like say, North Dakota. But it is much easier and cheaper, naturally, to distribute gasoline in populous states or provinces than it is with some of our markets. We go to Prince Rupert. Not long ago, a deputation of residents of North Bay and vicinity, I am told, interviewed the Prime Minister of Ontario, and asked that they pay only seven-twelfths of the automobile tax; their reason, which was a perfectly good reason, was that for five months of the year they cannot take their cars out of the garages, because of the snow. They said it was unfair that a man in Toronto or Ottawa, where the roads are kept clear, could use his motor car every day of the year and they could only use their's seven months of the year. They asked for a rebate of five months' taxes as a permanent thing. I do not think they got it, but it was an illustration of the fact that we have facilities, bulk storage in every town and tank wagons and men who do not earn anything in the five months, and that is also true in the west. Business just closes right up.

Q. I presume Mr. McCloskey when he comes will be able to give us the cost of distribution, would he?—A. He is a refining man, but we would have a man who could give us that.

Q. Just one other question in connection with this. You are largely interested in the Turner Valley field?—A. Very largely.

Q. And we understand, of course, that a number of the wells there have been closed down?—A. Yes.

Q. Would you care to state to the committee just what the reason is for that?—A. Well, it is largely competition. It is a matter of price; and then the Turner Valley product is extremely volatile, and if you mix it—we have got to mix it with a certain amount of ordinary gasoline to make a commercial product. I think you can put it in your car and run it for a little while, but it does not do your car any good. It is a matter of over-production. If the Turner Valley product was not so volatile and if it was not for an excessive freight rate it would move east and be very acceptable because of its volatile character, but it cannot stand the freight rate.

Q. At the present time do you move a part of your Turner Valley oil to your refinery say in Sarnia?—A. No.

Q. Or Montreal?—A. No.

Q. None of it goes east?—A. No, it would be too expensive.

Q. Where is it used?—A. Largely in Calgary and Regina.

Q. In speaking of the shareholders in the company—the holders of stock—this does not particularly concern me, but there have been rumours of the connection of the Prime Minister with the Imperial Oil Company, and it may be well to just have that cleared up now, if you will make a statement in connection with it?—A. I do not think there was any suggestion, Mr. Bothwell, that there was anything improper.

Q. Not at all. That is not the meaning of my question at all; it is more to satisfy the public mind that has been making statements of that kind. It does not concern me. As a matter of fact, it does not concern me in any way as to what his holdings are?—A. Sir James Lougheed—there is no reason for a refusal to answer a question like that—

The CHAIRMAN: If Mr. Ross wishes to answer the question, he is at perfect liberty to do so.

Mr. BAKER: We are not here to discuss the stockholders of the company.

Mr. Bothwell: I am not pressing the question. As a matter of fact, the asking of the question came about through a remark of the chairman himself, in conversation before the Committee convened.

Mr. Baker: It is going beyond our duty.

Witness: I do not think it is a good thing that that point should be raised or that point should be brought up without an answer. The question is a perfectly proper one. Sir James Lougheed, when I came with the company a little over ten years ago, maybe a little longer than that, was our lawyer in Calgary, just as somebody has to be our lawyer in Ottawa or Vancouver, and he became Minister of the Interior. At that time we were interested in that property at Fort Norman inside the Arctic Circle, and there was also some activities in the Turner Valley; and Sir James' law work—we were doing a lot of business here with the Department of the Interior, and this law work drifted over to Mr. Bennett. Then the Turner Valley became active, and we were dealing with leases out there, and most of the people we went to in connection with these leases said, "leave it to Mr. Bennett." There is generally a question at stake if you take an oil lease and you pay a man for it and you do not get any oil, which was generally the case—you were out that much money; and if you did get any oil he would always think he had not got enough for the property. They all seemed to have confidence in Mr. Bennett. He was our lawyer. He was carrying out agreements, and in order to give him the correct freedom of action he was put on the board, but he never was on the board in the full sense of a director. That is to say, each one of our directors in the Imperial Oil Company is a working man.

By Mr. MacMillan:

Q. How long ago was this?—A. About twelve years ago.

Q. Mr. Bennett was not even in the house then?—A. I don't think he was. It was at the time Turner Valley started.

By Mr. Vallance:

Q. Do I understand you to say that your directors to-day are all the heads of various departments in your company?—A. Yes; but Mr. Bennett came in as head of Turner Valley.

Q. Is it not also true that your employees are large shareholders in your company?—A. Oh, yes.

Q. I mean your common labouring men, say, in Sarnia?—A. Yes. We have easily six thousand employees who are shareholders. Between them they hold a tremendous amount of stock.

By Mr. Pettit:

Q. When did your Imperial Oil Company enter the Canadian field?—A. Oh, about fifty years ago—forty-five years ago.

Q. Your charge to the consumer is based on the cost of the crude?—A. Yes.

Q. And do I take it that between the crude and the charge to the consumer is the margin of profit?—A. It is the manufacturing cost and the marketing cost, depreciation costs. They are all in there.

Q. The ultimate cost—the difference between the ultimate cost and the charge to the consumer is your margin of profit?—A. I fancy that would be true.

Q. And that is made having regard to the fact that you desire to pay eight per cent on the par value of the outstanding stock?—A. It is due to a very human desire to make the company prosperous, and eight per cent in the most hazardous kind of modern commerce is not a large return.

Q. The cost to the consumer is based on the outstanding stock, on the par value of the outstanding stock—

By Mr. Donnelly:

Q. Between your stock and non par?—A. Non par, yes.

By Mr. Pettit:

Q. How many splits have there been, and what was the nature of those splits?—A. There have been, I think, three splits. There was also, as the company has grown and needed more capital—the reason for the split was because it was found a very practicable thing to get the stock somewhere in the neighbourhood of $10 or $25 so that the average housewife or the average workingman would buy two or three shares, the theory being that as soon as he bought those two or three shares he bought our products. But whatever stock bonuses there have been—I think there has been only one—have been due to the fact that we sell $100 par value share to an existing shareholdder—a $100 par value share, and we charge him $300. One hundred dollars of that goes into the capital account and $200 goes into the premium reserve account, and over a period of years the premium reserve accounts amount to sufficient so that you can split the stock and give a stock bonus.

Mr. McPhee: Don't you think we are wandering far afield?

By Mr. Pettit:

Q. How many times has the value of the no par value been fixed?—A. I cannot quite follow you.

Q. There is no par value stock, and the directors fix the value of that when you sell your stock from time to time, upon which you pay dividend?—A. Take a stock of the par value of $40 and split it four for one. The assumption is that it is worth $10; but what it is worth is fixed by the public.

Q. The directors fix the value of the no par value stock?

Mr. Hanson: They do if they are issuing new stock.

Witness: If you issue a no par value stock, the department requires so much capital, so much a share. You follow government regulations.

By Mr. Pettit:

Q. I would like to follow the fluctuations of the stock and the nature of the split and then we would know and have some idea as to whether the price charged now is based on probably stock that has been given away?—A. There never was any given away. When the split was four for one—

Q. Perhaps not given away, but a certain amount of no par value shares have probably been given in addition to what has been paid by the purchaser.

Mr. Hanson: He said he had one issue of bonus stock which came out of the premium reserve.

Witness: There has never been any bonus stock.

By Mr. Donnelly:

Q. Supposing I had one share in 1910, how many shares would I have now?—A. That is a long way to go back.

Q. How many splits have you made since 1910?—A. There were to or three. It is only taking a dollar from my shareholder and giving him four quarters back. It did not take any more tangible wealth.

By Mr. Bothwell:

Q. Can you remember those divisions of stock? In 1915 a stock dividend of 100 per cent was paid?—A. That is the one I speak of.

Q. In 1925 there is one from 2,000,000 at 25 to 8,000,000 of no par, and the shareholders received them on the basis of four for one?—A. Yes.

Q. April 16, 1929 the capital increased from 8,000,000 to 32,000,000 shares?—A. What date was that?

Q. April 16, 1929.—A. Yes.

Q. Four for one, is that correct?—A. I assume so.

Q. It was 100 per cent stock dividend in 1915, four for one in 1925, and four for one in 1929?—A. Yes. To get the true picture of that you will have to go back farther. You cannot start with the 100 per cent stock dividend as a stock basis. You will have to go back and take in what the shareholder paid in premium on capital stock before that.

Q. Your capital in 1915 was $10,000,000, was it not, for that 100 per cent stock dividend?—A. I believe it was. I was not with the company in 1915. I presume that is correct.

By Mr. Hanson:

Q. What was your premium reserve then?—A. The premium reserve for that 100 per cent stock dividend, I believe it was—I think about $500,000 as I remember. The rest was undistributed profit. But it is a fact, I think—this can be easily demonstrated by an accountant—I think the net result is that the shareholders have paid in more in premium reserve than they have taken out through the stock dividend. I think that is true.

By Hon. Mr. Euler:

Q. I think Mr. Ross stated that when they issued a $100 share it was issued at a premium of $200, and the workman paid $300?—A. The shareholder paid.

Q. And the $200 was credited to a premium reserve account?—A. $200.

Q. And that was then drawn upon for the issuance of more stock?—A. Yes.

Q. I would like to ask whether that premium reserve account was increased, or was composed only of the premium that was paid, the $200; or was that increased by undivided profits, I think you would call them, or by profits earned by the company which were later on issued to those shareholders? Was that reserve only on premium stock or was it increased by profits?—A. Both statements were true. A very considerable amount was premium reserve and the other was undistributed profits.

Q. They were all in the one account?—A. They were all put in the one account for the purpose of declaring this stock bonus.

Q. They were all in the one account?—A. They were all put in the one account.

Q. Mr. Ross, you stated that Mr. Clarkson had found that your company, over a period of years, averaged a profit of 8 per cent?—A. Yes, sir.

Q. A profit of 8 per cent on what?—A. A profit of 8 per cent on the capital investment, the money in the company.

Q. That is, actual money paid to you by the shareholders?—A. Yes, sir.

By Mr. McGibbon:

Q. Mr. Ross, can you tell us anything about by-products? The price of fuel oil, for instance, I imagine is regulated by the price of coal?—A. By the price of coal?

Q. I imagine so.—A. It is in certain places.

Q. I have heard that the companies really lose money on those by-products which are a necessary part of the manufacture of gasoline, is that true?—A. That is true, there is a loss on some things.

By Mr. Hepburn:

Q. I asked if the Imperial Oil Company has any subsidiary companies?—A. Yes.

Q. Could you file a list of those companies for the information of the committee?—A. I think they are in the annual report.

Q. You stated that 60 per cent of the shares of the company are held outside of Canada?—A. Yes.

Q. And about 60 per cent of the profits of the company are accrued outside of Canada?—A. No, 60 per cent of the dividends.

Q. Well, then, in bringing in your crude oil, for example, to your Halifax refinery, do you buy that on the free market or from one of your subsidiary companies?—A. We haven't any subsidiary companies that produce crude oil except the Dalhousie; we do not buy any oil in United States from any subsidiary.

Q. I am referring to your South American oil fields. Do you buy your crude oil from your own oil fields?—A. Oh, yes, quite a lot.

Q. And do you buy it then from your subsidiary companies?—A. Yes.

Q. It is possible you pay your subsidiary companies more money than you would have to pay on the free market?—A. No, that would not be wise, because we would pay a lot of extra money to a large minority interest.

Q. It would be the means of covering up profits, would it not?—A. We have had no incentive to cover up profits.

Q. Coming down to a matter of fact, we know there is a big spread between the price of gasoline in the United States and Canada?—A. Yes.

Q. You bring your crude oil in free?—A. Yes.

Q. Then the spread would only be attributed to the increased manufacturing cost and the increased cost of distribution in Canada? Those are the only two factors that could possibly enter into the spread or disparity in price?

Mr. HANSON: And freight.

The WITNESS: And then there is the question of exchange.

By Mr. Hepburn:

Q. You can go back beyond the time when there was the exchange rate.—A. The exchange in 1921 to buy New York funds to pay for our crude cost us $6,000,000.

Q. Well, then, you are connected with the Standard Oil of New Jersey?—A. You mean our company?

Q. Yes.—A. Yes.

Q. Does that company put out a similar product to your own, what you call your blue gasoline?—A. Not as good.

Q. Well, then, you say that the content of the gasoline is not a factor in the matter of price. You made that statement, did you not?—A. Well, it always is. I said that the quality accounted for the spread. It does not do that by any means between the American price and the Canadian price.

Q. I was in Windsor a short time ago and I had wait upon me a delegation of gasoline men there. They were distributors, retailers, and they satisfied me at least that there was a spread at that time of 8 cents in the wholesale price. In fairness to your company, I know there is a little difference in the size of the gallon, but is there anything to warrant a spread of 8 cents in the wholesale spread of gasoline in Canada as compared with the United States?—A. The wholesale price, or do you mean the retail price?

Q. The wholesale price. The retail price is around 10 cents or 11 cents. Could you answer that question?

The CHAIRMAN: Is that between Windsor and Detroit?

Mr. HEPBURN: Between Windsor and Detroit. At that time there was a spread in the wholesale price with reference to the blue gasoline of 8 cents a gallon.

The WITNESS: If we could stop the people of the border cities going across in the ferry and filling up their tanks we would do it. We would fight the Detroit distributor, but we cannot do it because we have to conserve our own resources to look after North Bay, Saskatoon and Prince Rupert. As I said before, speaking of Detroit, 30 companies have failed in Michigan in the last year.

Q. You just told us a little while ago that you took into consideration the fact that your costs of distribution were higher, so how can you justify your action in charging those people a higher price for gasoline—A. That is not so. The higher charges in the outlying sections are not an absolute burden on those sections. It is part of the price structure all over the country and the price structure all over the country is fixed having regard to the extra cost of distribution in the outlying sections.

Q. Well, I will just say this, that Canada is not a free market for gasoline, there is a high tariff and a dumping duty, and between the two of them there has been created a very material spread in prices?—A. It is not attributed to the oil companies—

Q. You say that the duty and tariff are not or have not contributed to that disparity in price?—A. That is to say, we are not making less money now than we did when Mr. Fielding gave us a cent protection in 1920.

Q. You would be content, then, under the tariff, as applied by the Fielding ministry?—A. I would not.

Q. You must be having some advantage over the present tariff?—A. The figures will show, Mr. Hepburn, just what advantage we are taking.

Q. Figures, of course, can show anything, especially when the stock has been divided four to one and then again four to one.—A. You must not make statements like that, Mr. Hepburn. We can establish that we are buying on a market just like the market for pig-iron. We pay our subsidiary in South America a price that is established by the market of the moment, the general market, and we buy at exactly the same price that we sell to Japan or sell—

Q. Then you get your crude oil as cheaply as the American competitor—if you buy in a free market you are able to buy your crude oil as cheaply as he can?—A. As the British American—

Q. As any other company?—A. Yes.

Q. There is no disparity, so far as your raw material is concerned, at that end?—A. No, Mr. Hepburn.

Q. Then the spread in price must be due to the three factors mentioned, that is the increased cost of production, the increased cost of distribution and the exchange rate?—A. Yes, and the freight.

Q. Do you think those three factors entitle you to an 8-cent spread?

Mr. HANSON: Are you talking about the bootleg market in Detroit?

Mr. HEPBURN: No, the established market price.

The WITNESS: There is no established market price, there is no such thing.

By Mr. Howard:

Q. Mr. Ross, you said a minute ago that you based your crude oil price on what is the posted price, that is to say, where you buy it from your own subsidiary, or whether you buy it from your own subsidiary or another one you base it on the posted price. How is the posted price for crude established?—A. We don't base it, the seller bases it.

Q. In other words, would you take the price of crude as supplied by the legitimate good-sized company?—A. Yes.

Q. If you could buy crude for so much less, what we call bootleg crude—I suppose it exists—but you don't do that. You pay your subsidiary, whoever it is, the posted price?—A. We buy, as I say, a very small fraction from subsidiaries and we pay the same price that other buyers from them pay. There is a certain amount of bootleg crude which we do not buy, because we must assure ourselves of a continuity of supply, so that we buy for a year at the posted price which is posted in Tulsa, the principal market, every day.

Q. Every day?—A. Yes.

Q. Now, you stated a minute ago, due a good deal to the higher manufacturing cost; if you eliminate the distribution factor do you consider that it costs more to manufacture in Montreal than it does in one of your American plants?—A. We have got no American plants.

Q. Well, your competitors in the United States?—A. Yes, it does. Our wages are higher.

Q. In Canada?—A. Well, here we put in an apparatus in Montreal not long ago. It was a great big still bigger than this room. It had to move from the point of manufacture on two or three flat cars. It could not go over 20 miles an hour and had to be transported in the day-time, having to be laid up at night. It was a new type, and the Ohio Oil Company president came over and we showed him this and he asked how much it cost. We told him it cost $800,000. He copied the idea and we asked him what it cost him and he said it cost him $600,000.

Q. Yes; but, Mr. Ross, you are now referring to a different thing. That is a capital expenditure.—A. Upon which you have got to earn dividends.

Q. Right; but you know that would be practically nothing in the price, a difference of $200,000 on capital expenditure, especially considering the amount of gasoline you sell. If you spread it over and it applied equally to every plant and every bit of equipment?—A. Yes, if you spread it over and it applied equally to every plant and every bit of equipment.

Q. Take, for instance, your labour costs in Montreal, they are not higher than your competitor pays for the same thing in the United States?—A. They are distinctly higher than some refineries pay who ship in here, especially Baton Rouge in Louisiana; they are not any higher.

Q. Personally, I am tickled to death that that is the case, but I doubt the statement. Now, back in 1915 the capitalization of your company was $10,000,000?—A. Well, I wasn't with the company in 1915, but I assume that is right.

Q. How many shares are there to-day in the Imperial Oil?—A. I think there is somewhere in the neighbourhood of 26,500,000—far too many.

By Mr. Power:

Q. Why do you say far too many shares?—A. Well, I think that in our efforts to interest the small investor we carried the split too far, and our stock is now spread all over the country in weak hands, and since the depression began those little fellows have had to sell their stock, and the cumulative effect on the market has been very bad. That is, five shares coming from Montreal, and five from Ottawa and five from some place else affects the market adversely, much more than the total sum of those shares.

Q. The price of the stock does not affect the company, though?—A. Oh, no, it does not affect the company.

Br. Mr. MacMillan (Saskatoon):

Q. What proportion of the cost of gasoline would be in the distribution; I mean, from your stations—A. To a service station?

Q. Yes. Is that the larger part of the retail price?—A. A very large part.

Q. Eliminating the dealer's profit—A. You mean the dealer's profit?

Q. Eliminating the dealer's profit, is the cost of distribution a large part of the cost, or the major factor?—A. Well, I should say it costs about 5 cents or 6 cents a gallon to sell gasoline at a service station.

Q. Well, now, in regard to the service stations, there is in the west the feeling that the service station men have been treated unfairly. The service station men have been complaining very bitterly about the manner in which the oil companies have treated them; that is to say, there is a great—A. I am surprised to hear that.

Q. On account of temperature there is a great shrinkage in gas and you bond these men?—A. Yes.

Q. And then you make them responsible for the number of gallons that your tank wagons deliver and a shrinkage takes place in very hot weather?—A. Yes.

Q. You are allowing them now, I think it is 1 per cent, although you did not allow them anything before?—A. What we did was to put on meters.

Q. But you have not put them on?—A. We put them on at different places to find out—

Q. Why not put them on at all places and then charge a man with the amount of gas that runs out, not that runs in—A. Because it would put a cent on the cost of gasoline. Those meters cost $1,000. Anyway, if you have a couple of thousand stations at a couple of thousand points it would run into a lot of money.

Q. Yes, but the farmer compalins that the gas station men—A. I think the farmer had some reason to complain. Of course the whole thing arose over the fact that gasoline has a certain gravity, or at a certain gravity there is no shrinkage; but when Turner Valley came along, in order to absorb the Turner Valley production and to make the gasoline better we put in this high volatile Turner Valley gas—

Q. But the farmer complains now in Western Canada—and I think it is reasonably substantiated—that up to now, by virtue of the manner in which you deal with your gas station man he had to short measure the farmer a bit?—A. I don't think that is true. As soon as that thing was discovered a very exhaustive examination was made by ourselves.

Q. Let me ask another thing. In view of this evaporation, that takes place on account of the temperature, doesn't it?—A. Very largely.

Q. Well, if those tanks were put below the ground would not that protect them?—A. That is a very expensive thing to do.

Q. Well, you have got the tanks?—A. We have got the tanks but we have not got the holes.

Q. The hole is the cheapest thing of the lot.

By Mr. Ralston:

Q. Mr. Ross, in the first place, would you file with the committee a statement showing the capital structure changes?—A. Yes, I will do that.

Q. In the company, say from 1910 if you like, whatever period would make or would give the committee a fair history of the structural changes in the company?—A. Yes, I will give you that.

Q. Showing the amount of capital issued, and the various bonuses and the various splits, and the amount of actual cash paid into the company?—A. Yes.

Q. Not the value on the market. We want to find out the actual cash investment on which the company is proposing to pay whatever dividend it does pay. —A. Yes.

Q. Then will you include in that or add to that a statement of the dividend record of the company based on its various capital changes?—A. Yes.

Q. Now, Mr. Ross, I am interested in perhaps a little different feature from some of the gentlemen who have been asking you questions. There has been a good deal of discussion with regard to the retail price in the United States as compared to the retail price in Canada. I am interested in consumers particularly, but fishermen consumers, the men who use gasoline boats who are interested in the amount which they have to pay for American gasoline, let us say, landed at their port or harbour as compared with the amount they have to pay for the Canadian gasoline. As I understand you, the difference,—at least some of the differences between those two prices are made up by these factors, first, that manufacturing costs in the United States, you say, are less than they are in Canada, and, secondly, you say that there has been an overproduction in the United States.—A. Yes.

Q. And that, therefore, the costs of the American gasoline landed in Canada do not represent a fair cost having regard to the actual cost of production?—A. Yes.

Q. And the third factor you mention is that there is a difference in the quality?—A. Yes.

Q. Cannot we eliminate that difference in quality?—A. I think so.

Q. Because we cannot compare, usually,—A. That is, if you compare the same grades.

Q. My fishermen come down to this: that they have to compare the cost of the gasoline, the American gasoline landed in Canada, which includes the factors of exchange and freight, as compared with the cost to them of Canadian gasoline, including the Canadian cost of manufacture and distribution; that is correct, is it not?—A. Yes, that is correct.

Q. Those are the factors that enter into the cost as laid down to the Canadian consumer by the consumer of Canadian gasoline?—A. Yes.

Mr. HANSON: Is there not just one further factor, the greater cost of distribution? I am interested in that part.

By Colonel Ralston:

Q. I am not talking about distribution in the United States. I am talking about landing gasoline in Canada, and, therefore, we do not have to discuss the relative costs of distribution in the United States?—A. No.

Q. We are only getting American gasoline over here and comparing the cost of that with the cost of Canadian gasoline. Now, as I understand your costs, you yourself are not in a position to speak on the details at least of the cost of manufacture in Canada, is that correct?—A. Yes, that is correct.

Q. As a matter of fact, you did, I have no doubt, present to the government a statement of your costs in order to demonstrate to the government that there should be an increase in duty?—A. I don't think we did. I don't recall.

Q. Are you quite sure?—A. I am almost certain. If I did it is on record, but I don't think I did.

Q. Did you present any case to the government at all at the time the duty was raised in 1930?—A. I was abroad in 1930. I don't recall what representations were made to the government. I know that we made some representations, by request, to the last government. It was suggested that we go before the Tariff Board. We went before the Tariff Board and I believe on the facts established the then Minister of Finance, Mr. Dunning, was convinced that we were entitled to a duty. In fact he told me so.

Q. Did you make any written representations at all?—A. I will look at my file. That is the best I can do. I don't recall at the moment.

Q. Because I think this point important, in view of the fact that you are basing your position in Canada, at least, on one major factor, and that is the increased cost of production here?—A. Yes.

Q. Now, then, when the Order-in-Council was passed fixing a value for duty purposes later,—you remember that?—A. Yes.

Q. Were you at home at that time?—A. I was.

Q. Did you make any representations to the government then in writing as to the situation in the gasoline industry in the United States as compared to the situation in Canada?—A. I think it was in writing. We saw someone,—it may have been Mr. Breadner—and we made some representation and I believe what he did was to take a gentleman from his department and make his own investigation.

Q. Did you make any representations yourself?—A. I would think we did, but I am not sure. I could find that out.

Q. That is, representations in writing?—A. Yes.

Q. You say you hadn't anything to do with them making an investigation of your situation in Canada and an investigation of the situation in the United States?—A. Well, if we knew that gasoline was being invoiced into Canada at a certain figure,—I don't know just how we would find that out, but if we knew it and we knew the price at the point of origin, we might conceivably tell Mr. Breadner about it.

Q. But you knew that, as a matter of fact, the Order-in-Council laid down a fixed price?—A. For any commodity.

Q. I am speaking about gasoline.—A. Yes, but it was not done for us. The dumping clause was not put in for our benefit.

Q. I don't mean that.—A. Or for the oil industry.

Q. There is a specific Order in Council fixing the value of petroleum products, particularly gasoline, Mr. Ross?—A. I don't know. I thought the Order in Council applied to any commodity.

Q. You are thinking of a statute which gives a minister the power?—A. Yes, that is what is in my mind.

Q. Then, the minister, exercising that power, had an Order in Council passed whereby he set the value of American gasoline for duty purposes, and for dumping duty purposes established so and so?—A. Yes.

Q. In other words, my fishermen have to pay that much for American gasoline regardless——

Mr. HANSON: They have to pay duty on it.

Hon. Mr. RALSTON: They have not only to pay the duty, but they pay the difference between the fixed price and the price of gasoline in the United States. There is no question about that. Now, I assume, Mr. Ross, that that was done at the instance or on the representations of the various companies interested in the petroleum industry in Canada; is that so?—A. I know that there was some correspondence with the Department of Customs on dumping. I presume that the documents are available.

Q. Will you give us your copies of them?—A. I think Mr. McCloskey can tell you about that when he comes, because he made the representations.

Q. You have no details yourself? You will give us all the correspondence you have?—A. I will give you what I have.

Q. You will give us all the correspondence you have had with the department in regard to the increase in duty in 1930 and at the time of the fixing of the prices for dumping duty purposes a little later. I do not know just the date of the Order in Council.

Now, will you tell me about the price of gasoline in Canada, if at the present time you regulate the price of gasoline in Canada at all, having regard to the actual cost of American gasoline laid down in Canada?—A. No, that is not a yardstick. The yardstick is the price of American crude.

Q. I beg your pardon?—A. The yardstick is the price of American crude.

Q. You are making no attempt whatever to meet the price of American gasoline laid down in Canada, or Roumanian gasoline?—A. Practically no Roumanian gasoline here. No, we don't, because the imported gasoline—usually a man in St. Thomas brings in gasoline and sells it below our price. Well, in order to meet it in St. Thomas, we will have to decrease the entire Ontario price structure.

Q. That is correct.—A. And we would be just like—we would rather lose business.

Q. Therefore, your position has no regard whatever to the price at which the consumer may purchase outside gasoline?—A. No.

By Mr. Donnelly:

Q. Mr. Ralston asked about the filing of a list by you showing the amount of capital, and so on.—A. Yes.

Q. I also understood him to say that in the annual report the subsidiary companies of the Imperial Oil were all mentioned. Will you also file with the committee a list of the subsidiary companies with the amount of capital, the same time as you file the other?—A. What is that?

Q. The names of the subsidiary companies and their capital?—A. Yes.

Q. Just the same as you do with your own?—A. Yes, we will do that.

Q. Mr. Ralston referred to the matter of fixing prices here in Canada. Is there a marketing committee, here in Canada, who fix the price for gasoline, or the marketing price of gasoline throughout the dominion?—A. A marketing committee, as it is called?

Q. Outside of the representatives of the company, the different companies? —A. Oh, no.

Q. No marketing committee at all fixes the prices for gasoline?—A. No, there is absolutely not.

Q. How is the price arrived at, then?—A. Well, a telegram comes in and says that crude is so much a barrel, ten cents a barrel in the midcontinent field, and the marketing man computes at once what relation that has to the number of gallons contained in a barrel of crude, and also its relationship to the market price of several hundred other commodities, and the price comes down. It may be done first by ourselves, or done first by the British American. It is usually a case of our size, and our size is diminished.

Q. In August last year, the price of crude in Texas fell down to about two and a half cents a barrel—A. Dr. Donnelly, I don't know what the price is to-day. I don't buy gasoline.

Q. There are one or two other questions, and I am through. Why is it that all the oil companies throughout the Dominion charge exactly the same price from place to place?—A. Well, they cannot very profitably sell under our prices. They cannot get any business by selling over our prices.

Q. They fix their prices on yours?—A. Generally. They are getting so much bigger, and we are getting so relatively—that is, our percentage of the business of Canada is decreasing every year, although our business is growing, and I have not the slightest doubt some day—I hope not—the time will arrive when some of those other companies will be doing the price fixing.

Q. Some other member of the committee referred to the fixed value for duty purposes and dumping purposes. Has your company ever paid any duty or paid any of those dumping duties?—A. I don't know whether we paid dumping—

Q. Have you paid any dumping yourself?—A. Duty?

Q. Yes.—A. Well, we paid duties.

Q. You have paid?—A. This year, yes.

Q. Have you paid any of those dumping duties?—A. I don't know whether we paid any dumping, I doubt if we did, because the product we brought in was not subject to dumping: We have brought in—I would not say this year.

Q. You bring in some gasoline, do you?—A. Last year we brought in some gasoline.

Q. Cheap?—A. For mixing purposes.

Q. That would be high-test, which comes in duty free?—A. No, I think there was duty on it. I can establish that.

Q. Where do you get your gasoline for distribution in the city of Winnipeg; where does it come from?—A. It comes from the Sarnia plant, most of it from Regina.

Q. Some of it from Regina?—A. I think Regina moves as far as Winnipeg.

Q. How do you account for the fact that you charge about five cents more in Regina than in Winnipeg for gasoline? You sold gasoline in Winnipeg, I see here, on the first of September, 1931, at twenty three cents, and in Regina at 27.5 cents, a difference of four and a half cents?—A. Well, we are selling it too cheap in Winnipeg.

Q. Or too high in Regina?—A. Perhaps.

Q. Do you bring gasoline from Regina and sell it in Winnipeg?—A. If that large disparity in price exists, it means that it moves by water.

Q. Cheap haul?—A. Water haul from Sarnia.

The CHAIRMAN: This is only the first meeting of the committee, and there will be plenty of opportunity given to go into the details of the matter before us. Mr. McCloskey was to be here to-day, but he met with a bereavement and was unable to come. Mr. Ross came so that the committee would not be disappointed. I think you will all agree with me that he has been pretty generous to us. He came here without documents, papers or books of any kind, and it is my opinion that he has been very generous and very kind to the committee indeed. Since it is one o'clock, I would suggest that we adjourn.

By Mr. Donnelly:

Q. In referring to the price of gasoline in Regina as compared with the price in Winnipeg, the rail haulage from Fort William to Winnipeg is just about equal to the haulage from Regina to Winnipeg—A. There is not very much difference.

Mr. BOTHWELL: May I ask a question.

The CHAIRMAN: If we start opening this again it will go on for a long time.

Mr. VALLANCE: I would suggest we adjourn.

The CHAIRMAN: Owing to the circumstances in Mr. McCloskey's case, will you leave it to me as to our next meeting, or shall we determine now when we shall meet?

Mr. VALLANCE: At the call of the chair.

The CHAIRMAN: I am very anxious to get on with the inquiry, and a meeting will be called at the earliest possible moment, I can assure you of that.

Now, is it wise that we should ask that this committee should be permitted to sit while the house is in session?

Hon. Mr. RALSTON: Perhaps we had better wait another week.

Committee adjourned.

APPENDIX "A"

REPORT OF G. T. CLARKSON, ESQ., ON THE PRICES OF GASOLINE AND OILS SOLD TO THE PEOPLE OF ONTARIO

TORONTO, January 11, 1926.

To His Honour HENRY COCKSHUTT, Esq.,
Lieutenant-Governor of the Province of Ontario,
Toronto, Ontario.

SIR,—By Commission dated June 5th, 1925, the undersigned was appointed to enquire whether the prices at which gasoline and oils are sold to the people of the province of Ontario are just and fair, and was authorized to take such steps for the acquirement of information relative thereto as might, in his opinion, be necessary. The power of summoning persons and requiring them to give evidence under oath and to produce such documents and things as might be deemed requisite for a full investigation in the premises was granted to the undersigned, who was required to report the evidence and facts brought out and shown by such investigation.

On receipt of such Commission, which was issued under the provisions of Chapter 18 of the Revised Statutes of Ontario, 1914, I obtained a list from the Department of Public Works and Highways of Ontario of all refiners, jobbers, wholesale dealers and distributors of gasoline resident within and without the province of Ontario who are required to make returns to such department in respect of the distribution and sale of gasoline within the province of Ontario. The number of distributors, as shown by such list, was ninety-eight, including certain whose principal places of business were in either the province of Quebec or the state of New York. In discussing the procedure to be followed in obtaining necessary information from such refiners and distributors, I was informed it had not been intended that I should investigate the prices at which kerosene, fuel and other than automobile lubricating oils are sold, but I was instructed to confine my investigation to those relating to the sale of gasolines and automobile lubricating oils in Ontario.

Thereafter I prepared a questionnaire, in form attached hereto as Exhibit "A" and caused the same to be sent to eighty-two of such distributors (the volume of business done by the remainder being unimportant), with the request that it be completed and returned to me duly sworn to under oath. Included in the information required to be given in such questionnaire was the following:—

(*a*) The amounts respectively of gasolines and automobile lubricating oils sold in Ontario by each distributor, within the periods between January 1st and December 31st, 1924, and January 1st and June 30th, 1925, subdivided to show the amounts thereof sold, respectively, to other wholesale distributors, retail distributors and direct to the public.

(*b*) The origin of supply of the gasolines and automatic lubricating oils so sold by each distributor within the periods mentioned, subdivided to show the proportions thereof refined in Ontario, the amounts refined in Canada elsewhere than in Ontario, and the quantities purchased in the United States of America and the producing fields there wherein such supply originated.

(*c*) The brands or trade names under which gasolines and automobile lubricating oils were sold by each distributor and the quantities sold within the periods mentioned under each of such trade names and brands.

(*d*) The wholesale and tank wagon prices, and the retail prices, at which gasolines and automobile lubricating oils were sold under each brand or trade name at forty-eight of the most important points in Ontario and upon specific dates mentioned in the questionnaire.

(*e*) The costs, laid down, to each distributor, on specific dates mentioned, of gasolines and automobile lubricating oils purchased by him and sold under each brand or trade name, together with the prices paid for the same at the points of production and the costs per gallon to the point of delivery with freight, duties, import taxes, exchange and other relative charges thereupon.

(*f*) The volume, in gallons, of gasolines and oils sold by each distributor within the periods between January 1st and December 31st, 1924, and between January 1st and June 30th, 1925; also statements of the expenses within such periods to each distributor of doing business, including the cost to him per gallon of all gasolines and automobile lubricating oils so sold.

(*g*) The service stations within the province owned and operated by each distributor, also the names and locations of all service stations not directly operated by the distributor but in which he or it had an interest.

(*h*) The number and location of all curb pumps in Ontario operated direct by the distributor or in which he had any interest, direct or indirect.

In addition to the information required from them by way of completion of the questionnaire, I also made request upon the three companies operating refineries and four other of the most important distributors of gasolines and lubricating oils in Ontario that they furnish me with certain specific information relative to the ownership and control of their capital stock, their investments in plant and working assets, the profits obtained by them from all sources, the prices paid for raw materials purchased (crude oils), the volume of business done by each, service stations owned, controlled or operated by them and with respect to other items and matters deemed by me to be relevant to the enquiry. It was necessary to obtain such facts from the refiners and distributors mentioned for the reason that refining crude oils or blending gasolines or oils, as they do, it is not possible, with accuracy or otherwise than in an arbitrary manner, to determine the costs on any specific date, of the individual products dealt in by them, but the question as to whether they had sold or were selling such products to the public at reasonable or unreasonable prices had to be determined by the amount of profits recovered when compared with the volume of business done and the capital employed by such refiners and distributors in the periods under review.

The necessity for obtaining such information was explained by me to officers of each of the refiners and distributors mentioned at the time when request was made to them for it. Certain of those from whom it was required expressed an immediate willingness to provide it, but there were others who took the attitude that it was beyond the power of the Province of Ontario to compel the giving of such information and they contended that the Federal Government was alone competent to do so. They stated that they were unwilling and would refuse to give the information if it was to be used as the basis of an inquiry where confidential facts relative to their businesses might be made public or left open to the inspection of competitors. Ultimately they expressed a willingness to provide the information if it were agreed that it should be held confidential within my possession and employed only for the purposes of ascertaining the facts which I was called upon to investigate.

The above conditions were reported by me to the Government of the Province of Ontario, through the Hon. George S. Henry, Acting Premier, following which and after due consideration I was instructed that I might, as Commissioner, receive the information required on the conditions stipulated. Considerable delay was occasioned, however, by my inability to proceed with the investigation pending discussion and disposition of the objections so put forward.

Immediately following receipt by me of the authority above mentioned, I made requisition upon the Imperial Oil Company, Limited, the British American Oil Company, Limited, the Canadian Oil Companies, Limited—operating refineries in Ontario—and the Shell Oil Company of Canada, Limited, McColl Bros., Limited, the Sun Oil Company, Limited, and the Cities Service Oil Company, Limited, which—with the three refineries mentioned—conduct the largest businesses in the sale and distribution of gasolines and oils in Ontario, that they furnish me with information relative to their respective affairs (in addition to that required in the questionnaire), and as follows:

(*a*) Balance Sheets for each of the years 1919 to 1924 inclusive, and for the half-year to June 30, 1925; each statement to clearly indicate operating capital distinct and separate from that otherwise invested.

(*b*) Operating and Profit and Loss statements for each of the five years 1920 to 1924 inclusive, and for the six months ending June 30, 1925; such Operating Accounts to distinguish between operating revenue and income from investments.

(*c*) Details showing all depreciation allowances charged against revenue.

(*d*) Dates and amounts of the issue of capital stock and the considerations for which such issues were made in the period between January 1, 1914, and June 30, 1925.

(*e*) Lists of registered shareholders as of date June 30, 1925, and statements as to share warrants outstanding.

(*f*) Statements of sales in Canada for each of the years 1923 and 1924, and the six months of 1925, classified to show separately in gallonage and dollars the sales of gasolines, lubricating oils, fuel oil and other products.

(*g*) Statements of sales in the Province of Ontario for the years 1923 and 1924, and the six months ending June 30, 1925, to show separately in gallonage and dollars the volume of sales of gasolines, lubricating oils, fuel oil and other products.

(*h*) Statement of crude oils purchased in certain specific periods mentioned, with full particulars as to dates of purchase, price at the well as compared with posted prices of the day, other charges by vendor, delivery charges and cost F.O.B. refinery.

(*i*) Lists of all service stations operated for the year 1924 and during 1925; showing with respect to each station the investment in same, sales, costs of products sold, labour, maintenance, interest depreciation and all other charges, operating profit or loss, and specimen copies of monthly reports.

(*j*) Copies of forms covering the sale, rental or loan of curb pumps. Part of such information was readily available but the greater portion of it required to be extracted from the accounts and records of each of the companies mentioned and, in the case of certain companies, portions of it had to be obtained from records in London, England, and in the United States of America.

Certain representatives of the Department of Public Works and Highways being placed at my disposal they—under any direction—proceeded to the States of New York, Pennsylvania, Ohio, Indiana, Illinois and Michigan, where direct information was obtained by them relative to the prices at which gasolines and automobile lubricating oils had been and were being sold to the public at important points within such States. In addition, such representatives obtained samples of gasoline sold at certain of such points and later they and other representatives appointed by me, obtained samples of gasoline sold to the public at various important points in the Province of Ontario. Twenty-six of the samples so obtained were sent forward to Dr. L. F. Goodwin, Queen's University, Kingston, for analysis.

Completion of the questionnaires presented difficulties to a number of the distributors to whom they were sent and particularly to those whose records were not so conducted as to facilitate the giving of the information required. As a consequence a number of distributors delayed the return of the questionnaires sent to them, while others returned them in an incomplete condition; still others reported that they had kept no books or records, but had conducted their businesses upon a cash basis, which left them wholly unable to supply more than a minor part—if any—of the information required. This condition was—to some extent—to be expected, but ultimately adequate returns were received from thirty-two distributors and partial information from ten others. Coming as the returns did from the more important distributors the information so received was sufficient, in my opinion, to provide an adequate survey of the conditions sought to be made known by the issue of the questionnaire.

With the return of the questionnaires, as above mentioned, and receipt of the information required to be submitted by refiners and the larger distributors, such questionnaires and information were analyzed and checked by persons appointed by me for such purposes, and thereafter the following persons were examined by me under oath:

Victor Ross, of Toronto, Vice-President of the Imperial Oil Company, Limited.

Frederick J. Wolfe, of Toronto, Sales Manager of the Imperial Oil Company, Limited.

John McNeill, of Toronto, Assistant Sales Manager of the Imperial Oil Company, Limited.

Thomas C. McCobb, of Sarnia, Treasurer of the Imperial Oil Company, Limited.

Leo. C. McCloskey, of Toronto, Assistant General Manager of the Imperial Oil Refineries.

Albert L. Ellsworth, of Toronto, Managing Director of the British American Oil Co., Limited.

John C. Millar, of Toronto, Assistant Treasurer of the British American Oil Company, Limited.

Frank H. Littlefield, of Toronto, General Manager of the Canadian Oil Companies, Limited.

Charles W. Walker, of Toronto, Accountant, of the Canadian Oil Companies, Limited.

Cecil C. Smith, of Montreal, Manager of the Shell Oil Company of Canada, Limited.

John W. McColl, of Toronto, Vice-President of McColl Bros., Limited.

Arthur Hughes, of Toronto, Secretary-Treasurer of McColl Bros., Limited.

John W. Forney, of Montreal, Managing Director of the Sun Oil Company, Limited.

W. Gordon Ritchie, of Toronto, District Sales Manager of the Sun Oil Company, Limited.

Thomas J. Spillman, of Toronto, Manager of the Cities Service Oil Company, Limited.

Alexander Hastings, of A. Hastings & Sons, who operate a service station at Woodstock, Ont.

Robert E. Menzies, of the Star Oil Company, Oakville, which operates a service station at Oakville and distributes wholesale by tank wagons.

James M. Thayer, of J. L. Thayer & Sons, Aylmer, who operates service stations at Aylmer, London and St. Thomas, and sell wholesale by tank wagon.

Roy W. Wallace, of the Ontario Supply Company, Simcoe, which operates a service station at Simcoe, and also distributes wholesale by tank wagon and in carload lots.

Samuel Chapple, of the Athletic Garage, Hamilton, which operates a service station.

Albert N. Hollingshead, of the Consumers Supply Company, Toronto, which operates a service station in Toronto, and also distributes wholesale by tank wagon.

William Dunn and John A. McIntosh, of the Pennsylvania Oil Company, Toronto, which distributes wholesale by tank wagon.

Dr. Leo Frank Goodwin, Professor of Chemistry, Queen's University, Kingston.

William H. Brown, of the Department of Public Works and Highways, Toronto.

The evidence and testimony given by officers and representatives of the Imperial Oil Company, Limited, the British American Oil Company, Limited, the Canadian Oil Companies, Limited, the Shell Oil Company of Canada, Limited, McColl Bros., Limited, the Sun Oil Company, Limited, and the Cities Service Oil Company, Limited, was largely concerned with and related to statements prepared, and the information provided on behalf of such companies relative to their capital, profits, volume of business done, costs and origin of products purchased, contracts relating to the same, service station investments and accounts covering the operations thereof, and other items of a financial nature relating to their businesses; accordingly having regard to the authority given to me to receive the same in a confidential manner the evidence of such persons and the statements provided by such companies and the analytical and other detailed statements prepared for me by the accountants assisting me are not attached to this my report. The accuracy and correctness of such statements was, however, sworn to under oath by the officers representing each company concerned. Inasmuch as the questionnaires completed and returned to me by the other distributors contain certain information of a similar and confidential nature relative to their businesses, I am also retaining such questionnaires in order that the information therein contained shall be dealt with upon the same basis and in the same manner as that submitted by the refiners and larger distributors mentioned.

As a result of my investigation so undertaken and conducted, I have the honour to submit the following report:

Automobile lubricating oils are manufactured in Ontario—by distillation from crude oils—by the Imperial Oil Company, Limited, the British American Oil Company, Limited, and Canadian Oil Companies, Limited. The Shell Oil Company of Canada, Limited, McColl Bros., Limited, The Sun Oil Company, Limited, and the Cities Service Oil Company, Limited, are importers of oils which are blended in Canada to produce lubricating oils; other wholesale dealers, jobbers and distributors and a number of retail dealers and service station owners also import lubricating oils which they either blend or else sell to the public in the conditions in which they are purchased. Lubricating oils imported from the United States of America are subject to a duty of 2½ cents and an import tax of five per cent when their cost is less than 25 cents per imperial gallon; oils costing more than 25 cents per imperial gallon are subject on importation to a duty of 20 per cent and a five per cent import tax.

No standard specifications appear to obtain with respect to the manufacture of automobile lubricating oils, but each refiner and blender works to his own specifications and to the production of oils of a character which he considers of the best quality or most suitable for his purposes and trade. When produced such oils are ordinarily graded according to their gravity principally to obtain uniformity and the best oils are submitted to various tests including those for viscosity, flash and fire test, acidity, emulsification, cold tests and for freedom from carbon.

The wholesale distribution of automobile lubricating oils is effected in Ontario by sales to service stations, retail dealers and curb pumps by tank wagon deliveries, in barrel or bulk quantities and also by sale in sealed tins and packages. Ordinarily list prices are quoted for oils so sold, with increasing discounts given according to the quantities purchased by a dealer within a specified period of time.

Refiners, distributors and dealers expressed the practically unanimous opinion that, generally speaking, there are no means by which a retail customer can protect himself in respect of the quality of an oil sold to him beyond relying upon the fair dealing and honesty of the retail dealer who sells it—the responsibility and reputation of the wholesale dealer or producer and the satisfaction or dissatisfaction he may meet with in its use. They stated it was well understood in the trade that oils of inferior quality are not infrequently purchased and retailed at prices equal to those of the better and best grades and that the use of brands and sealed packages has been adopted to minimize and overcome this condition as much as possible.

Returns received in the enquiry showed that the margins obtained on the sale of automobile lubricating oils varied from five per cent to over 100 per cent between original cost and wholesale selling prices and that such wholesale prices were in turn increased in degrees varying from five per cent in some instances to upwards of 100 per cent in others on retail sales. With this the case, retail selling prices amounted in some instances to three times the cost paid by the wholesale dealers who supplied them, but for a large part aggregate spreads between such costs ran about 100 per cent. With such wide variations it was difficult, if not impossible, to fix any definite percentages as to the average spread recovered, but the following typical examples will show the graduations in price between original costs and retail selling prices per imperial gallon, namely:—

Example	Cost to Wholesale Distributor	Wholesale Selling Price	Retail Selling Price
	c.	c.	$ cts.
No. 1	46	97	1 30
2	64	90	1 35
3	40	60	80
4	60	75	1 25
5	90	95	1 50
6	50	60	1 00
7	40	42	84
8	55	58	1 00
9	51	61	1 40
10	33	60	1 00

Witnesses examined admitted that profits on the sale of oils were large but they claimed that considerable portions of the wholesale margins were absorbed by delivery and handling costs and particularly by advertising expenses in the case of branded oils—added costs were also met where sealed packages were used.

Statements covering the operation of service stations showed that the amount of automobile lubricating oils sold retail in Ontario was between three and four per cent only of the volume of gasoline sold and this fact was put forward as a justification for the wide spreads which obtained in the retail selling prices of oils as compared with those of gasolines. It was contended—and with some force—that the expenses of handling oils were heavy when compared with the quantity sold, making it necessary to obtain wide margins in order to earn a profit.

Comparison of prices paid for automobile lubricating oils in Ontario as compared with those at several United States points indicated that moderate discrepancies existed in some instances, but that for the most part little difference existed after adjustment to cover quantity variations, duties, freight and other necessary costs.

Gasolines sold in Ontario are derived from two sources, namely: (*a*) From the refining of crude oils produced in or imported into Ontario; (*b*) by the importation into Ontario, as refined products, of gasolines, which are sold to the public either in the same condition as purchased, or else blended with other gasolines (refined in or imported into Ontario) following which the products so obtained are sold to the public.

Gasolines are manufactured in Ontario by the Imperial Oil Company, Limited, with a refinery at Sarnia; the British American Oil Company, Limited, with a refinery in Toronto; and Canadian Oil Companies, Limited, with a refinery near Sarnia. McColl Bros., Limited, had a refinery under construction in Toronto, but it was not in operation in the periods under review. The Imperial Oil Company, Limited, imports a limited amount of light gasolines for refinery purposes, while the British American Oil Company, Limited, and Canadian Oil Companies, Limited, import gasolines—in a refined state—from the United States of America, and in important quantities. Gasolines sold in Ontario by the Shell Oil Company of Canada, Limited, McColl Bros., Limited, the Sun Oil Company, Limited, the Cities Service Oil Company, Limited, and the Ontario Supply Company of Simcoe, are imported into Ontario by such companies—as are also gasolines distributed and sold by a number of jobbers and retail dealers who have railway trackage and capacity facilities. Upon occasions gasolines manufactured to defined specifications are sold by Ontario refiners to other of such refiners and wholesale dealers.

Under the Canadian Tariff crude oil is admitted into Canada free of duty. Gasolines under ·725 specific gravity at 60 degrees temperature (known commercially as "64-66" or high test gasolines) are admitted free of duty but are subject to an import tax of five per cent. Gasolines ·725 specific gravity and heavier, but not heavier than ·750 specific gravity at 60 degrees temperature (commonly called "58-60" gasolines), are subject to a duty of one cent per imperial gallon and five per cent import tax.

Crude oils produced in Canada are sufficient, according to evidence adduced, to supply not more than three per cent, to four per cent of Canadian requirements—accordingly the people of Ontario are dependent upon foreign countries and particularly the United States of America for their supply. The Mid-Continent fields situate in the States of Oklahoma, Kansas, Arkansas and Texas, are the largest producing fields nearest to Ontario, and prices ruling there govern, under normal conditions, the costs necessary to be paid in Ontario for products derived from the refining of crude oils.

Evidence indicates that while contracts have upon occasions been entered into by refiners in Ontario for the purchase in the United States of America of crude oil at fixed prices over limited periods of time, crude oils are, as a general rule and almost entirely, purchased by such refiners at the posted prices ruling from day to day in the Mid-Continent fields or other fields of production. Crude oils imported from countries other than the United States of America are not refined in Ontario to any material extent, but where imported into Canada the prices paid for such oils would also appear to have been adjusted to accord with the United States prices. These conditions and other evidence produced before me indicate that the prices paid by Ontario refiners for crude oil have not been enhanced or increased over ruling market prices in favour of any allied or associate corporations.

In the distillation of crude oils the lighter oils, being the naphtha and benzine distillates, are first drawn off—then kerosene distillates, gas oils, lubricating oils and other products in succession. Naphtha and benzine distillates are the lightest in gravity and, generally speaking, those remaining are successively heavier as distillation proceeds and each in turn is withdrawn. With the use of hydrometer tests it is possible under such conditions to make cut-offs so as to obtain distillates of any relative gravity required, and with such the case a refiner may either—

(*a*) Obtain naphtha distillates of such gravity that after refining and treatment they produce gasolines of high grade, without the necessity of introduction into them of any foreign element, or

(*b*) Obtain naphtha and benzine distillates of so heavy an average gravity that light naphthas—or absorption or casinghead gasolines—must, with refining and treatment, be added to permit of their commercial sale and use, or

(*c*) After the withdrawal of the naphtha, as in (*a*) above mentioned, still further withdraw—from the oils remaining—heavier naphthas with, if desired, a greater or lesser measure of kerosene distillates; when so withdrawn such distillates will be of so heavy a gravity that absorption or casinghead gasolines must be added to them to provide volatility and permit of their sale and commercial use as gasolines.

Additional recoveries of light naphthas or gasolines are obtained by the cracking heat and pressure of kerosene distillates and gas oils obtained in the distillation of crude oils, as above mentioned, and such gasolines are used exclusively for blending purposes. "Absorption" and "casinghead" gasolines are obtained by the compression of and absorption from natural gas and being of a very volatile nature they are not marketed to any degree in their original state, but are employed for blending with refinery straight run gasolines or heavy naphthas, when they assist to improve volatility and provide a quick starting point.

In their manufacture gasolines are divided into two classes, namely: refinery straight run gasolines and blended gasolines. Refinery straight run gasolines are those obtained from the refining and treatment of naphtha and benzine distillates, free—or assumed to be free—from the introduction into such gasolines of any foreign or outside elements. Evidence indicates that light gasolines obtained from the cracking of kerosene distillates and gas oils are frequently contained in refinery straight run gasolines in order that their production may be permitted at a cost to meet competition—also that absorption and casinghead gasolines are sometimes used to improve their gravity and quick starting qualities. Blended gasolines may be obtained by the admixture, in a refined state, of high test gasolines with those of heavier gravity, but they are most frequently composed of heavy naphthas and absorption gasolines. Ordinarily the blending of gasolines is effected by refinery processes when what are known as refinery blended gasolines are obtained—blending is sometimes effected, however, by the mere admixture, without further treatment of heavy naphthas or kerosene distillates with absorption gasolines, when the commercial gasolines so obtained are known as raw blends; according to testimony given, gasolines of the poorest class are usually of this character. Analyses made show that in certain isolated instances benzol—a coal tar product—is contained in gasolines sold in Ontario; according to evidence of Dr. L. F. Goodwin, of Queen's University, Kingston, such benzol constitutes an anti-knock element and when limited to 8 and 10 per cent in quantity is not detrimental—his opinion, as expressed, however, was that if used in largely increased quantities danger of solidification in extremely cold weather existed.

According to testimony given the motive or impulse values of gasolines are largely provided by the heavier naphthas contained in them, but to give a maximum of service a gasoline requires to be of such composition and balance as will with its use give a quick initial starting point, high value in power, a level impulse throughout the whole period of use and ultimately freedom from carbon and precipitation with such use. Distillation tests are ordinarily employed to determine the character and quality of gasolines, in that such tests indicate the starting point, regularity or irregularity of impulse throughout the whole period of consumption, and the degree to which unsaturated hydro carbons are contained. Other tests, such as the " Doctor " test to detect the amount of sulphur compounds, colour test, odour test and acidity test are also employed to greater or lesser extents to determine freedom from impurities.

Premium priced gasolines command, when sold at retail, from two to three cents more per imperial gallon than do other commercial gasolines, and under distillation tests the first drop over of such gasolines ordinarily occurs at between 100 and 110 degrees Fahrenheit, 40 to 55 per cent becomes distilled at a temperature of 221 degrees and complete distillation—or the " end " point—occurs at about 375 degrees, while a recovery of from 97 to 98 per cent is obtained. Gasolines which are not premium priced include both refinery straight run gasolines—ordinarily between 58-60 gravity—and also blended gasolines which range up to " 64-66 " in gravity. If imported from the United States of America, to conform to the United States Government Motor Gasoline standard, the first drop over in distillation of such " 58-60 " gasolines must occur at not more than 131 degrees Fahrenheit, 20 per cent over at 221 degrees, 50 per cent over at 284 degrees, with an end point of not more than 437 degrees Fahrenheit and a recovery of not less than 95 per cent. Schedule B attached hereto is a statement of analyses made of 22 samples of gasolines collected in Ontario during July and August, 1925, and it shows that, with isolated exceptions (being imported products) such gasolines then sold in Ontario were well within such specifications and of better grade than required under them in that the starting and end points are below those specified.

Extended enquiry was made to determine which class or classes of gasolines give the best return to consumers in Ontario. As a result it became clearly apparent that wide differences of opinion exist between refiners, distributors and dealers as to what particular compositions in commercial gasolines give the greatest return, having regard to price, motive values and under varying conditions as to weather and temperature. Distributors of premium priced gasolines claim a quicker starting point, a more level power impulse and freedom from carbon and precipitation with their use, while those dealing in lower priced gasolines contended that full relative economy, a maximum of power and satisfactory starting facilities were provided with their use. Certain distributors dealing in both gasolines favoured one class under certain conditions and the other class under other conditions, and evidence was that in certain European countries premium priced gasolines were held in public favour, but that on this continent sales of such gasolines were largely exceeded by those of lower price. In view of such testimony and the differences of opinion which exist I feel I cannot report otherwise than that the matter is one of controversy.

The starting points of gasolines are, speaking from a layman's standpoint, largely determined by their volatility and gravity, and where in warm weather, with hot engine, it is readily possible to obtain a satisfactory response with the use of a gasoline of low gravity, the ignition of such gasoline will not be so prompt or keen in extremely cold weather. To meet this condition it is the practice of manufacturers and blenders to improve the volatility and gravity of their gasolines (other than premium priced) when sold for winter use in Ontario, by the admixture of light naphthas or absorption gasolines. Gasolines sold in winter are, therefore, lighter in gravity—as a general rule—than are the same gasolines when sold for summer use. The contention put forward by Canadian distributors that gasolines sold to the Canadian public are, as a whole, of superior grade to those sold in the United States of America is also partly, if not largely, explained by the fact—according to evidence given—that low grade gasolines containing kerosene distillates and light naphthas can be used with a greater or lesser degree of satisfaction in certain parts of the United States of America—particularly the Southern States—while with the more rigorous climatic conditions which obtain in Ontario, such gasolines would not be practicable of use there, except possibly for limited periods in each year.

Evidence given before me served to show that many retail dealers and consumers in Ontario are of opinion that the quality of a gasoline can be definitely determined by its quick starting qualities and gravity and that these two tests are adequate to clearly indicate the character of any gasoline they may buy. Expert testimony contended that such tests, while indications, were unreliable and not dependable in that it is easily possible to produce a gasoline of poor quality which will fulfil such requirements and still be inefficient in use. It was stated that among the poorer classes of gasolines which are saleable commercially, are those manufactured by the admixture of heavy naphthas or kerosene distillates with a proportionately large amount of absorption gasolines added to them. When it contains a sufficient proportion of absorption gasolines the gravity of such a blended gasoline may be made "64-66" or high test, and the absorption gasolines contained in it will give a quick starting point. With use such gasoline is not at all certain to give satisfactory service but—particularly if raw blended—the more volatile elements are apt to be first consumed—without the return of proportionate power—leaving the heavier ends to be consumed later when carbon deposits and precipitation are likely to occur; thus, while it would fulfil the tests mentioned, such gasoline would not be a good but a poor gasoline and one which would be likely to give inadequate service.

Until with comparatively recent years the distribution of gasolines was largely effected by the use of steel drums and barrels, to be followed next by the supply through tank wagons to hardware and grocery stores which—free from competition by manufacturers and wholesale distributors—made their own prices and obtained such margins on retail sale as they were able to. Automobile owners finding that they could buy direct from manufacturers then commenced to instal tanks in their garages whereafter large quantities of gasolines were distributed by tank wagon and direct sale to such owners in 50 and 100 gallon quantities, a limited amount continuing to be sold in this manner even to-day. Thereafter the curb pump, as presently employed, came into use and the idea of service stations was developed, with the result that the marketing of gasolines in Ontario is now effected—and practically exclusively—through the following avenues of distribution:

(*a*) By sale in tank car quantities to distributors, retailers and wholesale consumers,

(*b*) By distribution, with the use of tank wagons, to service stations, curb pumps and wholesale consumers, and

(*c*) By retail sale through curb pumps and service stations to the public.

In order to be able to handle gasolines in tank car quantities a dealer must control both railway trackage and tank capacity facilities and with this the case tank car business is largely limited in extent when compared with the aggregate volume of business done in gasolines in Ontario. Sales of gasolines in tank car quantities are made between Ontario refiners and wholesale distributors, and by them also to such local jobbers, service stations and curb pumps as possess the facilities mentioned. On sales between refiners and wholesale dealers in Ontario in tank car quantities a spread of as high as six cents per imperial gallon below ruling tank wagon prices is ordinarily allowed, while local tank wagon distributors are generally given a margin of between four and five cents. No fixed rule appears to be observed in respect of prices to service stations and curb pumps buying from Ontario distributors in tank car quantities but certain wholesale dealers appear to charge a varying rate per gallon—according to the market—over laid down cost, while others base their price at so many cents per gallon below tank wagon prices. Importations of gasolines from the United States of America—which are delivered in tank car quantities—are largely effected by manufacturers and wholesale dealers and by those who act in the capacity of brokers for American producers, or on their own behalf, in either of which latter events, if resold in tank car quantities, a commission over import cost is ordinarily charged. When imported by manufacturers and wholesale dealers such gasolines are for the most part distributed by tank wagon to retail dealers and service stations, when the wholesale dealer obtains the benefit between import costs and tank wagon rates. If imported direct by service stations and curb pumps controlling facilities, the margins between import costs and retail prices are retained by the service station or curb pump operators.

The wholesale distribution of gasolines in Ontario is largely accomplished with the use of tank wagons and by reason of the facilities which they provide the proportionate quantity of gasolines distributed with their use exceeds that of all other wholesale avenues combined. The efforts of refiners and distributors are accordingly largely directed towards such business and their principal selling and marketing costs are incurred in connection with it.

The retail sale of gasolines to the public in Ontario is effected almost exclusively through service stations and curb pumps, and retail prices ordinarily bear a fairly fixed relation to tank wagon prices—tank car prices, for a large part, have also a relation to tank wagon prices. With this the case it can fairly be said that the prices at which gasolines are sold in Ontario are regulated by tank wagon prices.

Competition for business between wholesale distributors and a desire on the part of each to maintain or extend its volume of business has led to the construction and operation of a large number of service stations by refiners and the more important wholesale dealers, and by reason of the increasing public favour which service stations command the policy of embarking upon such construction and operation on a more extended scale also appears to have been adopted or to be in contemplation by certain of them. Where service stations are owned or operated by manufacturers and wholesale distributors it is the almost general rule to charge them full tank wagon prices for all gasolines supplied to them and such gasolines are then—as another general rule—sold to the public at three and a half cents per imperial gallon over tank wagon rates. Curb pump operators and retail dealers competing with such stations must of necessity meet such rates if they are to continue in business, and with this the case the rates charged by such service stations have a definite influence in regulating the retail prices of gasolines.

Service stations are also owned and operated by many private investors, and stations so owned are able, when they possess railway trackage and capacity facilities, to purchase their supplies in tank car quantities or to import the same, if they shall so require. Should they purchase from Ontario distributors in tank car quantities they obtain an advantage over those who have to buy at tank wagon rates, but when they import gasolines direct or through brokers they retain the margin—greater or lesser as it may be—between import costs and the prices at which they retail them. When such service stations do not possess railway trackage and capacity facilities they are compelled to buy in tank wagon quantities at the regular tank wagon prices or possibly such slightly better rates as they may be able to obtain if they command a substantial volume of business; in these events their margins are confined between the competitive prices at which they must sell retail and the tank wagon rates they pay.

When curb pump operators possess trackage and capacity facilities they are in a position—just as are service station owners—to buy gasolines in tank car quantities and to import the same, if they shall so require, from the United States of America upon favourable price movements or during distress markets. When they import they retain the margin between such import costs and retail selling prices and when they buy in tank car quantities they ordinarily buy at reductions below tank wagon rates. Otherwise and without such facilities their only medium of supply is by tank wagon delivery when, as a general rule, they pay the same prices as are charged to service stations owned or operated by wholesale distributors. When service stations compete with them they must meet their prices and this means that as a general rule a margin of three and a half cents per imperial gallon is obtained by retailers on gasolines sold through curb pumps in Ontario.

Efforts on the part of wholesale distributors to protect or expand their businesses have given rise to a practice which now serves to give them a measure of control over the operation of a large number of curb pumps in use in Ontario. Under such practice a wholesale distributor purchases a curb pump and then sells it to a retailer or garage operator on extended terms of credit—usually three to five years—or else leases it to him under the terms of a rental agreement. In either event the purchaser is required to restrict sales made through such pump to gasolines which are supplied by the wholesale dealer. In certain instances such restrictions run for a definite period of years but in others they obtain for so long only as the pump shall remain not fully paid for or the rental agreement continue in force. In the agreements which came before me no provisions were contained which sought in any way to control the prices at which gasolines were to be sold retail through such pumps and it was emphatically contended that such agreements were not originated or entered into for any such purpose. It is my opinion, after hearing the evidence given, that the practice did originate in efforts made by wholesale distributors to protect and enlarge their businesses; nevertheless it is apparent that with a retail dealer restricted to one source in the purchase of his gasolines and the prices to be paid for the same either left open or to be determined by the distributor, he does not remain a completely free agent but is largely under the control of the wholesale dealer notwithstanding the right which he may possess to complete payment for the pump and possibly free himself from the covenants mentioned. In this view I am of the opinion that the agreements do possess an influence upon retail prices in that they prevent a curb pump operator—who has entered into one—from buying from other sources if more favourable terms be offered, and in particular they prevent him from taking advantage of distress markets—fair or unfair as such competition may be. Otherwise I believe their effects are to a very large extent paralleled by the conditions hereinafter set forth.

The volume of business done through a curb pump varies according to its situation and locality, and the evidence of certain wholesale distributors is that it does not exceed 40 to 50 gallons per pump per day on the average throughout Ontario and 60 to 75 gallons per day—as an average—in larger centres like Toronto. With retail prices fixed by service stations, when pumps compete with them, and their costs by tank wagon rates (when they are unable to import direct) the ordinary margin of 3½ cents per imperial gallon thus allowed gives an average gross earning to curb pumps in Ontario of $1.75 per day and in centres like Toronto of $2.62 per day from sales of gasolines. Pumps located on lines of dense traffic and at important points have of course—and in many instances—a much greater turnover, but according to evidence they are the exception and not the general rule. Average returns—as above stated—with profits from sales of oils and other accessories—do not under such conditions provide more than wages to those who operate pumps for their livelihood and they leave little or not incentive to reduce prices to those who operate them as adjuncts to other businesses even though costs of operation be disregarded or not seriously considered. Examination of the accounts of over one hundred service stations operated in Ontario further indicates that but a very limited number of them are able to pay a reasonable rental and show a profit on a margin under 4 cents per gallon on gasoline sold (plus profits on oils and other accessories) while with many of them costs range between 5 and 6 cents per gallon and in some instances still higher where inadequate turnover compared to investment and operating costs is obtained.

The above conditions mean that profits obtained or losses sustained from fluctuations in the wholesale prices of gasolines are absorbed by manufacturers, wholesale dealers and importers without participation therein by service stations, curb pump operators or retail dealers who buy their supplies at tank wagon prices. They also leave little room for competition in the retail sale of gasolines on the part of service stations and curb pumps privately owned, which buy their supplies at tank wagon prices, but they place manufacturers, wholesale dealers and importers in a position where, if they follow any common policy, they are able (assisted by their operation of service stations and the extent to which they control pumps) to very largely determine retail prices. Departure from such common policy by any important manufacturer or importer would, however, very largely limit, if not entirely terminate, their ability to do so.

Evidence of the most positive character was given by officers of the Imperial Oil Company, Limited, the British American Oil Company, Limited, Canadian Oil Companies, Limited, McColl Bros., Limited, Shell Company of Canada, Limited, Sun Oil Company, Limited, and the Cities Service Corporation, Limited, that no association existed and no agreement or understanding had been entered into which had for their purpose the regulation or control of prices at which gasolines were sold in Ontario, and testimony was given by the officers of each of such companies that it had no proprietary interest, direct or indirect, in any of the others or any influence in their administration or the conduct of their affairs. Lists of stockholders (when registered) were produced in support of such testimony and further evidence was given in respect of shares held under share warrants—which are not registered—to the effect that no control or influence was effected through them and so far as knowledge went no common ownership existed. On the other hand, it was frankly stated by officers of the other companies that, inasmuch as the Imperial Oil Company, Limited, holds a predominant position in the trade in Canada, it has been and is their custom to follow prices set by it from time to time. Such course was upheld by them on the ground that it is a common trade practice for the largest producer in any line of business to set prices and other dealers to follow them. They also contended that they needed, and were glad to accept, any profits which arose from increases in price made effective by the Imperial Oil Company, Limited, while they were compelled, they said, to meet reductions if they were to retain their business. Information as to increases and reductions in prices of the Imperial Oil Company, Limited, was largely obtained by the other dealers by keeping in touch with rates charged at its service stations, but in certain instances such knowledge was procured from quotations given by the Imperial Oil Company, Limited, with respect to the prices at which it was prepared to supply gasolines of specific character and quality in wholesale quantities.

In the early part of the year 1924 a heavy overproduction of crude oils took place in the United States of America—with a consequent relative overproduction of gasolines. With lack of a ready demand for such increased quantities of gasolines, many operators became pressed financially, with the result that large quantities of such gasolines had to be realized upon under forced conditions, they were thrown upon the market and sold at greatly reduced price. Ontario importers and a number of jobbers and retail dealers, with railway trackage and capacity facilities, took advantage of these conditions and heavy importations of such gasolines were effected principally between January and September, 1924; gasolines so imported were then sold in Ontario at varying margins over the reduced prices paid for them. Ontario refiners, with stocks of crude oils on hand and purchase contracts to be completed, were unable, as they testified, to manufacture gasolines at costs which permitted them to meet competition of such a character except at the expense of serious losses; accordingly they adopted the policy of marketing their gasolines wherever possible at prices which they deemed to be commensurate with the costs of such crude oils. As a result of such efforts on their part variations took place in the retail prices at which gasolines were sold in some localities in Ontario when compared with the rates charged in others. In some districts and particularly at points in lower western Ontario gasolines were sold at low or moderate margins over import distress prices and in a number of instances where Ontario refiners met such prices in protection of their businesses, they claim to have sustained losses; in other localities, however, importers charged and obtained prices equal to those set for gasolines of Ontario manufacture and by so doing assisted to maintain prices there at such levels while some of them received substantial advantages.

It was contended by certain of the refiners and wholesale dealers mentioned that a number of the gasolines sold at low prices in western Ontario were of inferior character and they claimed that such gasolines had been produced by American manufacturers for sale purely on a price basis, without regard to quality, and largely in an effort to reduce their existing stocks and relieve financial necessities. Such contention was seriously maintained by several dealers, but the evidence they offered was of a general nature only and no specific instances were quoted in support of it; on the other hand, no testimony was offered in contradiction to it. With the lapse of time it was impossible for me to obtain samples of the gasolines sold in such prior periods—for analysis—so to assist to verify or refute the contention.

Attached hereto as Schedule "C" is a statement of retail prices charged per imperial gallon for gasolines sold at various points in Ontario and at the times therein mentioned in 1924. Eliminating differentials attributable to increased costs of transportation, the widest variations which occurred in such prices are typified by the following comparisons:—

RETAIL SELLING PRICES PER IMPERIAL GALLON AT

Date	1 Toronto	2 Hamilton	3 Woodstock	4 Simcoe	Maximum differential between 1 and 3 or 4
	c.	c.	c.	c.	c.
January, 1924	27	25½	..	25	2
March, "	31	27½	..	25	6
May, "	31	28½	25	25	6
July, "	31	27½	25	25	6
September, "	30	27	20	25	10
November, "	24	22	20	20	4
December, "	24	22	25	20	4

Enquiry was directed to ascertain the reasons for these variations in price.

Returns made showed that laid down costs, selling prices and gross margins on gasolines imported at Woodstock and Simcoe on the dates mentionned were as follows:

—		Cost Price Laid Down	Per Imperial Gallon Retail Selling Price	Gross Margin
		c.	c.	c.
At Woodstock—				
April,	1924	18	25	7
May,	"	20·02	25	4·8
June,	"	20·02	25	4·8
July,	"	18·17 (average)	25	6·83
September,	"	16·87 "	20	3·13
October,	"	15	20	5
November,	"	15	20	5
December,	"	17	25	8
At Simcoe—				
January,	1924	18·34	25	6·6
March,	"	21·05	25	3·95
May,	"	19·82	25	5·18
July,	"	18·83	25	6·17
September,	"	15·41	25	9·59
November,	"	15·62	20	4·38
December,	"	17·20	20	2·80

The excess of retail prices charged at Toronto above the costs of imported gasolines as laid down in Simcoe and Woodstock were therefore—

—		Excess of Toronto Price as above	Margin in Woodstock Price as above	Total
		c.	c.	c.
Woodstock—				
January,	1924	....	....	....
March,	"	....	....	....
May,	"	6	4·8	10·8
July,	"	6	6·83	12·83
September,	"	10	3·13	13·13
November,	"	4	5	9
December,	"	(−1)	8	7

—		Excess of Toronto Price	Margin in Simcoe Price	Total
		c.	c.	c.
Simcoe—				
January,	1924	2	6·6	8·6
March,	"	6	3·95	9·95
May,	"	6	5·18	11·18
July,	"	6	6·17	12·17
September,	"	5	9·59	14·59
November,	"	4	4·38	8·38
December,	"	4	2·80	6·80

(Sold in Toronto, these margins would have been reduced by about one-quarter cent per gallon to cover added costs of transportation.)

Testimony given showed that gasolines were handled at both Woodstock and Simcoe—by the dealers there who were examined—as adjuncts to other businesses and that such other businesses were charged with expenses which ordinarily must have been recovered from gasoline sales. Operating on such a footing, costs of handling and sale of gasolines were looked upon by the dealers mentionned as about one-half cent per gallon in one instance and two and one-half cents per gallon in the other, when they were almost entirely composed of an arbitrary allowance made to cover wages of the proprietor.

The statements above set out indicate the margins obtained by the dealers at Simcoe and Woodstock mentioned between import costs to them of gasolines bought in tank car quantities and the retail rates at which they sold the same; also the expenses of conducting their businesses, as they considered them. As opposed to this the costs met with by refiners and wholesale dealers in administration of their businesses and in respect of the delivery of gasolines in tank wagon quantities and the retail sale of gasolines in Toronto—and other points in Ontario—were as follows:

Examination of the accounts of service stations operating in Toronto shows as before stated, that but in few instances are they able to operate and pay rental on a margin of between three and one-half cents and four cents per gallon, while in the majority of cases expenses run between five cents and six cents per gallon, with even higher costs if the volume of business done is not commensurate with the capital investment. Costs of tank wagon deliveries there were sworn to at various rates from one cent to one and one-half cents per gallon, while general costs of administration, including advertising, and such tank wagon costs, were proven at between three and one-half cents and six and three-quarter cents per gallon on the total wholesale turnover of gasolines and oils in Canada. Calculation of a rate per gallon on a combined turnover of gasolines and oils is unsatisfactory, in that the money profits obtained on the sale of a gallon of oil ordinarily exceed by many times the profits recovered from the sale of a gallon of gasoline. On the other hand sales of gasolines are between twenty and thirty times as great as those of oils. As it was impossible to definitely segregate the costs of dealing with gasolines from those of dealing with oils an arbitrary method had to be employed to determine the costs per gallon of dealing in gasolines as compared with oils. After considering the quantities, profits and other conditions prevailing, I came to the opinion that a reduction of one-half cent per gallon from aggregate costs was a liberal basis to adopt to determine approximate expenses in respect of sales of gasolines. With such deduction and the fact that no one of the refiners or wholesale dealers has operated at a minimum cost in all departments, the lowest combined wholesale and retail expenses shown in 1924 were six and one-half cents per gallon of gasoline, while with other dealers and refiners they ranged as high as from eight and one-half cents to, in one instance, ten and one-half cents per gallon in the period mentioned.

The above computations show that had retail sales of gasolines in Toronto been entirely restricted during 1924 to gasolines imported and purchased at distress and reduced prices, the wholesale dealers and importers mentioned could not have sold at Woodstock and Simcoe prices without (except upon one or two occasions and in the case of certain dealers only) sustaining losses at varying rates per gallon, which would in the most extreme case have amounted to seven and one-half cents—plus the increased costs, if any, paid for gasolines of improved grade where the same were marketed. With Toronto prices two, four, six, and ten cents per gallon more than Woodstock and Simcoe rates, however, some dealers made very substantial profits on gasolines imported and sold by them in Toronto within the period; others with higher costs paid for gasolines and increased ratios of expense obtained moderate returns only, while still others, with relatively high costs of doing business, obtained either little net profits or else sustained losses.

Question as to whether the rates of profit obtained on gasolines manufactured in Ontario and sold within the period mentioned—in 1924—were reasonable or unreasonable, was possible of being determined only by consideration and examination of the operating and profit and loss accounts of the refiners concerned and in dealing with such statements profits earned from the manufacture and sale of automobile lubricating oils and gasolines could not be separated from those recovered from other products derived from the refining of crude oils except upon certain arbitrary footings, each one of which was open to greater or lesser objection. The best evidence available to determine whether the prices charged for such gasolines and oils were reasonable or unreasonable were the profits earned by the Imperial Oil Company, Limited, whose business was most largely restricted to products of Canadian manufacture. Accounts covering the same were submitted and they showed that such profits were not excessive or unreasonable, but they were of lesser relative amount than were the profits obtained by certain other dealers whose businesses had wholly or to a large extent been comprised of gasolines imported during the period. This fact and other facts relating to the business of the Imperial Oil Company, Limited, indicate that, in operating their refineries in 1924, Ontario manufacturers obtained a lower ratio of profit from gasolines so produced than they could have recovered, had they restricted their sales to gasoline purchased at distress prices in the United States of America.

The retail prices at which imported gasolines were sold in Toronto having—if the figures before mentioned be accepted—provided approximate gross margins of between six and three-quarter cents and eleven and one-half cents per gallon during certain months of 1924, question arose as to why independent and small dealers did not import direct and then intervene and cut prices in Toronto in the same manner as happened at Woodstock and Simcoe and other points in lower Western Ontario. Wholesale dealers, service station operators and retail dealers conducting businesses in Toronto, were, therefore, examined to obtain an answer to such question and their testimony was as follows:—

Importers, who were examined, stated quite frankly, that they had followed the prices set by the Imperial Oil Company, Limited, in respect to gasolines manufactured by that company in Canada. They admitted that such prices had produced substantial margins of gross profits at different times in 1924 and claimed that they were fully justified in accepting such profits, having regard to the fact that the gasoline business runs in cycles, requiring substantial earnings in one period to offset reduced earnings or losses in others, if a fair average rate of profit is to be obtained over each period of years. They maintained that there was no just reason from their standpoint and under such conditions why they should have cut prices in Toronto to meet rates quoted at other points in Ontario where dealers were able either to operate at a lower burden of expense or else—considering themselves practically free of expense—handled gasolines as adjuncts to other business and at a nominal cost. Several of such wholesale dealers also presented statements which showed that their ratio of expense was such that they must have operated at serious loss had they attempted to meet such rates. Those examined claimed that competition in Toronto was in no way limited, but that such market was open to access by any importer, jobber or retailer who might choose to make the necessary investment and obtain facilities for the conduct of business. These conditions, they said, were in force in 1924 and they knew of no reasons why they had not been availed of, unless it was that persons having knowledge of the business understood its profitable and unprofitable cycles and had, therefore, hesitated to make the comparatively heavy investment necessary to enter upon operations there. As a further possible reason for lack of competition in Toronto similar to that met with in Woodstock and Simcoe, they pointed out—(and in accord with statements which they submitted)—that construction and operation of a service station in Toronto demanded the investment of as high as $50,000, dependent upon location and size of the station operated, and they gave it as their opinion that this fact and the moderate rate of profits obtained over periods of years had constituted a deterrent to those persons who might otherwise have been moved to enter upon the business and cut prices, relying upon existing conditions in 1924 and future possible abnormal markets for their support and profit.

Jobbers with smaller ranges of business and operating in and around Toronto were also examined and they claimed that the expenses attendant upon their business had been such that they had been only too glad to follow the prices set and accept the margins given; they contended that even with such margins it had been difficult for them to operate and they complained that the volumes of business which they were able to do, and their markets, were largely restricted by the character of the agreements entered into by many curb pump owners in Toronto with the larger dealers. Statements and evidence submitted by such witnesses showed that in several instances their businesses had not produced adequate profits, but that many of them had sustained losses over the periods of their operations.

Distributors who conducted tank wagon and retail businesses in and around Toronto also testified and certain of them stated that they had endeavoured to increase their trade by selling at reduced wholesale and retail prices within Toronto, and, in 1924—their evidence was that they had met with little or no success by so doing and they voiced it as their opinion that this was largely due to the fact that the public of Toronto is suspicious of gasolines sold at reduced prices when offered by any other than well-known dealers and that it will not readily purchase the same.

As opposed to this latter evidence, testimony was given by the owner of an important service station located in one of the larger centres outside of Toronto that he had examined conditions in Toronto and was satisfied that if a proper location could be obtained with railway trackage available he could establish and conduct a retail business and earn substantial returns by selling at reduced price. He stated, however, that the time had not been propitious during 1925 for so doing, for the reason that prices charged for gasolines of Ontario manufacture were so reduced—when compared with import costs of American gasolines—that little or no margin was left to importers out of which to meet the costs of doing business.

After carefully considering the above evidence and other relative facts testified to I am of the opinion that the retail price levels which obtained in Toronto and certain other points of Ontario during parts of 1924, and the lack of competition there similar to that which prevailed in Woodstock and Simcoe were attributable to the following causes:

(*a*) The inability on the part of wholesale dealers, with their higher burdens of expense, to sell at Woodstock and Simcoe prices without sustaining losses varying in extent according to costs met with in doing business.

(*b*) The adoption of a common policy on the part of importers, wholesale dealers and distributors to follow prices set by the Imperial Oil Company, Limited, for gasolines manufactured by that Company in Canada.

(*c*) The inability of retail dealers and independent curb pump operators taking their supply from tank wagon deliveries in Toronto to reduce prices, having regard to the reduced margin of profits obtained by them.

(*d*) The measure of control exercised by refiners, wholesale dealers and importers over retail distribution in Toronto through the medium of service stations owned or operated by them and curb pumps under sale or rental agreements with them.

(*e*) The apparent unwillingness of investors in 1924, from whatever cause it may have arisen—either by reason of the amount of capital investment required or the average profit return promised over a period of years—to invest in service stations in Toronto and other points in Ontario and to sell gasolines through their medium at reduced prices.

Retail prices paid in Hamilton in the same period were lower than those paid in Toronto by from one and one-half to three cents per gallon and beyond a slight variation in transportation costs this condition was attributable, according to evidence given, to the fact that distributors there did not follow Imperial Oil Company, Limited, prices—as a policy common to all—but certain of them dealing in imported gasolines reduced their retail prices and other dealers followed suit. Reductions in wholesale prices were allowed by refiners and importers to their customers to permit them to meet such competition, and—in general—this policy was largely followed at other points in Ontario where competition of a similar character was met.

As of date July 1, 1924, tank wagon prices of gasolines sold at Toronto and other points in Ontario were 27½ cents per imperial gallon, such prices having been set by the Imperial Oil Company, Limited, and followed by other refiners and wholesale distributors. Laid down costs of gasolines imported from the United States of America amounted at the time to between 17½ to 18½ cents per imperial gallon and importers were, therefore, left with a gross margin of between nine and ten cents per gallon to cover their costs of doing business and their profits. In September, 1924, tank wagon prices dropped to 26½ cents per gallon, but import prices also dropped to about the same extent so that the margin left did not vary to any important degree. By November 1, 1924, however, the Imperial Oil Company, Limited, had dropped its tank wagon prices to 20½ cents per imperial gallon when, with import costs remaining between 16 and 18 cents, the margin left to importers became reduced to between two and one-half and four and one-half cents per gallon. Tank wagon prices set by the Imperial Oil Company, Limited, and the approximate laid down costs of imported gasolines, with the margins left available for importers were from July 1, 1924, forward as follows:

Date	1 Tank Wagon Price	2 Laid Down Costs of Imported Gasolines	3 Gross Margin obtained between 1 and 2
	c.	c. c.	c. c.
July 1st, 1924	27·5	17·5 to 18·5	9 to 10
September, "	26·5	16·75 to 17·5	9 to 9·75
November, "	20·5	16 to 18	2·5 to 4·5
December, "	20·5	17 to 17·5	3 to 3·5
January, 1925	22·5	16·5 to 17·25	5·25 to 6
March, "	24·5	21 to 22·5	2 to 3·5
May, "	23·5	20 to 20·5	3 to 3·5
June 1st, "	27·5	21·5 to 23	4·5 to 6
June 30th, "	27·5	23·5 to 25·5	2 to 4
July 15th, "	27·5	23·5 to 25·5	2 to 4

Officers of the Imperial Oil Company, Limited, stated that such reduction in tank wagon prices had been put into effect after careful consideration of conditions by its Board of Directors, which had come to the conclusion that many plants had been established in 1924 which could not continue to operate in a normal market and that a weakening of prices would take place in consequence. The Board thereupon, according to the testimony of such officers, authorized reductions in tank wagon prices and such reductions were, they said, maintained in November and December, 1924, in the belief that should they be increased, a comparatively short period of time would elapse before they would again require to be reduced, when the fluctuations in price would annoy the public. They maintained that consideration of market conditions had alone dominated the policy of the Imperial Oil Company, Limited, in respect of the reductions and later increases put into effect, and they contended that the policy followed had been beneficial to the people of Ontario in that it had served to provide them with gasolines at low relative levels when compared with United States prices.

As before mentioned, costs of administration and wholesale distribution amount to three and one-half cents as a minimum, and six and three-quarter cents as an approximate maximum per gallon of gasolines sold, and with this the case the policy put into force by the Imperial Oil Company, Limited, in fixing tank wagon prices at the levels mentioned had the effect—when compared with import costs of gasolines—of compelling a number of other wholesale distributors and importers to do business at a loss, some for portions of the period between November, 1924, and July 15, 1925, and others for the whole of it. It also affected the businesses and margins obtained by smaller jobbers and retailers who were importing and selling direct to the public. With this the effect, certain of those examined complained that the Imperial Oil Company, Limited, had adopted such policy for the express purpose—in their opinion—of embarrassing and discouraging competitors who depended upon the importation of gasolines for their supply and as a reprisal for the competition which had existed at different points in Ontario during certain months in 1924. They claimed that if the policy had not been adopted for such express purpose, it had, in any event, such a practical effect. Officers of the Imperial Oil Company, Limited, emphatically denied that there had been any such intention on the part of their company and they maintained insistently that the course pursued had been adopted for the reasons stated by them and for those reasons only. Whatever the reasons for its adoption may have been the policy had the effect of providing gasolines to the people of Ontario at lower prices—from November 1, 1924, forward—than would undoubtedly have otherwise obtained, and below, in certain instances, relative American prices. It had the further effect also of inducing a number of distributors and retailers to purchase from Canadian manufacturers in 1925, or to enter into contracts with them for the supply of gasolines, where in 1924 such dealers had obtained their supplies by importation.

With admission that prices set by the Imperial Oil Company, Limited, were followed as a matter of general policy, and in most localities by other wholesale dealers in Ontario, question was raised as to what, if any, reason there was to prevent the Imperial Oil Company, Limited,—with acquiescence of such dealers—from increasing prices of gasolines to an abnormal extent and procuring excessive profits if it—and they—should at any time desire to do so. Officers of the Imperial Oil Company, Limited, maintained that there was no possibility of it and other dealers enforcing such a condition and claimed that as selling prices of gasolines bear a direct relation to the cost of crude oils in the United States, any attempt on the part of Canadian producers to unduly enhance prices would be met by heavy importations of gasolines when price reductions to normal levels would immediately be enforced. Accounts submited by the Imperial Oil Company, Limited, and the profits obtained from its operations in Canada show that it has not taken advantage of the position which it occupies to obtain prices out of line with costs, for at no time during the periods under review were its profits shown to be unreasonable or exorbitant; as to whether Ontario prices are or are not regulated by American competition, and to the extents suggested is, however, a matter which appears to be somewhat open to question in view of the following conditions.

Attached hereto as Schedule "D" is a statement showing the relative retail prices for gasolines sold in Toronto, Buffalo, Chicago, Cleveland and Detroit for the period between January 1, 1924, and July 15, 1925. This statement shows that as a general rule Toronto prices were higher than relative prices at Buffalo, Chicago, Cleveland and Detroit in the period between January 1 and November 1, 1924, and to extents varying as high in one instance as five and one-half cents per imperial gallon; that a difference of about one per cent per gallon existed in January, 1925, between Toronto prices and those of Detroit and Chicago; while Buffalo and Cleveland prices were about level with them. From March 1st, 1925, forward, prices at Detroit and Chicago were about equal—relatively—to those at Toronto; those at Cleveland slightly higher; while Buffalo prices exceeded Toronto prices by from three and one-half to four cents per gallon. The conditions which obtained between January and November 1st, 1924, do not, in my opinion, tend to uphold the contentions of officers of the Imperial Oil Company, Limited, or to prove that Ontario prices have at all times been regulated by American prices; on the contrary they serve to indicate that so long as all the principal refiners and wholesale importers in Canada shall follow a common policy with respect to prices charged and also retain a substantial measure of control over retail distribution in any locality, they can render such competition largely ineffective there.

Whatever be the conditions which may have prevailed—or now obtain—in Ontario relative to the manufacture, importation and wholesale and retail sale of gasolines and lubricating oils—including those above mentioned—the question as to whether reasonable or unfair prices are being or have been charged must in the ultimate be answered by the extent of the net profits obtained. To this end balance sheets, profit and loss accounts and the other statements mentioned in the early part of this report, were obtained from seven of the principal refiners and wholesale dealers, and these statements were carefully analyzed and considered in all their elements. With such consideration it became clearly apparent that, just as with businesses of other character, wide variations existed in the volumes of business done and costs of operating to the different refiners and dealers, and that with such the case certain of them were able to obtain substantial earnings at times when others operating on the same margins and selling at the same general prices were unable to do business except at a loss.

It was agreed that information given to me by each of the refiners and dealers mentioned should be held as confidential for the purposes of the enquiry and I may not, therefore, report the capital invested, volume of business done and the earnings obtained by each. After excluding investments, which did not relate to operations in Canada, but including capital and profits of subsidiaries operating in Canada and adjusting depreciation and other allowances to a common and equitable basis, the statements submitted showed that over the period of five years beginning January 1st, 1920, and ending December 31st, 1924, the combined net profits of the three refiners operating in Ontario did not exceed an average of eight per cent per annum on the combined-capital they so employed. Such statements also showed that profitable and lean years were met with within such period, the most profitable having been the year 1920, and the least profitable the year 1923.

Earnings of wholesale dealers were more difficult to deal with on an average basis than were those of refiners, for the reason that very wide variations obtained in their volumes of business and costs of operation. Two of such dealers also were operating in 1920, while the third commenced operations in 1921 and the fourth in 1923. Those who gained profits as compared with those who sustained losses in such period were in number as follows:—

Year	Number Operating	Number who Earned Profits	Number who Sustained Losses
1920	2	1	1
1921	3	1	2
1922	3	2	1
1923	4	3	1
1924	4	2	2

The rates of profits obtained by certain of such importers and distributors in the above period were considerably greater than those obtained by Ontario refiners and were largest in 1924, when they were able to buy gasolines in the United States of America at distress prices and sell them at many points in Ontario at rates equal to those obtained for gasolines of Ontario manufacture; statements available for the enquiry indicated, however, that the rates of profit of such importers and distributors had become very much reduced in the first six months of 1925. Other such wholesale dealers, whose accounts were examined, did business at a loss over the whole period of their operations in Ontario up to December 31st, 1924, and also in the year 1924, when their widest margins of sales of gasolines were obtained.

Statements submitted by the seven refiners and wholesale dealers herein mentioned showed that their average investment in ninety-six service stations owned or operated by them throughout Ontario was $19,181. A large proportion of such stations had been operating for periods of less than one year and while accounts submitted showed costs of operation in certain instances as low as three and one-half cents per gallon, the expenses of the majority of the stations, with their businesses in the course of development, were higher, running up to as much as eight cents per gallon in certain instances. Accounts submitted in respect of forty-eight stations in Toronto showed that the average capital investment in them was $24,830 and that otherwise conditions relating to their operation were largely similar to those which obtained with respect to operation of service stations throughout Ontario, as a whole.

Summarizing the evidence given and the opinions and conclusions hereinbefore expressed, I therefore report that—

(1) No standard specifications prevail with respect to the manufacture and sale of automobile lubricating oils in Ontario, but the public there is compelled to rely for its protection upon the fair dealing and honesty of the retailers from whom it shall purchase such oils, and in the case of branded oils and those sold in sealed packages, upon the responsibility and reputation of the refiners and wholesale dealers distributing them.

(2) Sales of automobile lubricating oils amount to between three and four per cent in volume of the quantity of gasolines sold in Ontario, and the prices at which such oils are ordinarily sold vary between 100 and 200 per cent in advance of their cost to wholesale dealers. Net earnings obtained by refiners, wholesale dealers and retailers show that these margins do not leave unreasonable or excessive net profits, but that they are largely absorbed by costs of administration, selling, advertising, packages and handling to wholesale dealers, and by handling and other attendant expenses to retailers.

(3) Analyses of samples obtained during July and August, 1925, show that many of the gasolines then being sold in Ontario were of superior quality and all of those analyzed with one exception—an imported product—were within United States Motor Gasoline Specifications. In the case of the exception mentioned it was admitted that it had been purchased on a price and gravity basis without further specifications as to quality.

(4) Evidence was given by officers of the three refiners and four wholesale dealers mentioned, that no association, understanding or agreement exists, or has existed, having for its purpose the fixing of prices at which gasolines are sold to the people of Ontario. Lists of stockholders, with information as to share warrants outstanding, were submitted and evidence given that so far as known no common ownership of shares existed. It was further testified by the officers of each company that it had no interest, direct or indirect, in the ownership of any of the other companies or in the conduct or administration of their affairs. I accept such evidence.

(5) It was admitted by the other refiners and wholesale dealers who were examined that they had each adopted the policy of following prices set by the Imperial Oil Company, Limited, in respect of gasolines manufactured and sold by it in Ontario and this course was upheld by them as conforming to ordinary trade practices—in view of the predominant position held by the Imperial Oil Company, Limited, in the trade in Canada—and justified by them on the grounds of advantage and necessity.

(6) In the year 1924 a heavy overproduction of gasolines took place in the United States of America and large quantities were forced upon the market and sold at reduced and distress prices. Canadian refiners, with stocks of crude oils on hand and commitments to purchase, were unable to meet the prices at which such gasolines could be imported into Ontario and sold, except at the cost of losses. Accordingly they continued to charge—so far as they were able to do so —rates which were commensurate with the costs of crude oils to them. As a result of the adoption and carrying out of such policy prices for gasolines in Toronto—and many other points in Ontario—exceeded relative prices at Buffalo, Chicago, Cleveland and Detroit in amounts varying between one-quarter cent and five and one-half cents (in an extreme case) per imperial gallon, at times within the period betwen March 1 and November 1, 1924. Variations in prices also obtained between retail rates at many points in Ontario and in the most extreme case testified to, a difference of ten cents per imperial gallon occurred.

Prices for gasolines of Ontario manufacture were reduced about November 1, 1924, and with such reductions—and a more than proportionate increase in rates thereafter charged by American producers for their gasolines—a point was reached by March 1, 1925, when Ontario prices became less than relative prices charged at certain points in the United States of America, and this condition continued up to August 1, 1925, the end of the period under review. Variations between the prices charged at different points in Ontario also became reduced and by July 15, 1925, they did not exceed three cents per imperial gallon as a maximum for gasolines of ordinary quality—freight adjustments being taken into account.

(7) It was contended by the refiners and wholesale dealers examined that adoption of the common policy in Clause (5) mentioned did not permit or allow them to increase or unduly enhance prices of gasolines to the people of Ontario, and they maintained that as costs of manufacture of gasolines bear a direct relation to costs of crude oils (which have for the most part to be purchased in the United States of America) any attempt to charge excessive prices in Ontario would immediately be met by the importation of gasolines from the United States of America when price reductions to reasonable levels would be enforced. Under normal conditions such contention cannot be otherwise than correct. Ontario prices exceeded relative American prices, however, in the period between March 1 and November 1, 1924, and with this the case it is my opinion that regulation of Ontario prices by the importation of American gasolines can be and was rendered largely ineffective at the points and within the times referred to by reason of

(*a*) The adoption by refiners and importers of the policy of following prices of the Imperial Oil Company, Limited;

(*b*) Operation of service stations by refiners and wholesale dealers, and

(*c*) The measure of control maintained by refiners and wholesale dealers over curb pumps under sale and rental agreements.

The ability of refiners and importers to render the competition of American gasolines partially ineffective, in so far as regulation of Ontario prices is concerned, makes it clear that they are able to exercise a large measure of control over the wholesale and retail rates at which gasolines are sold in Ontario. They have not, in my opinion, however, taken any undue or improper advantage of this power, and departure by any importer with a substantial volume of business from adherence to the common policy mentioned, would immediately terminate it.

(8) Combined net earnings of the three refiners operating in Ontario averaged approximately eight per cent per annum on the combined capital employed by them in Canada over the five years between January 1, 1920, and December 31, 1924, and in no year within such period were the profits of any of such refiners excessive in amount.

(9) Profits obtained in 1924 were substantial in the case of certain importers who were able to purchase gasolines at distress prices and sell them at rates equal to those obtained by refiners on products of Canadian manufacture. The rates so charged yielded little profit, however, and in one instance losses to other wholesale dealers and importers who sold at the same prices within that period, while adjustment of the prices of the Imperial Oil Company, Limited, substantially reduced the margins obtained by all importers in the period between November 1, 1924, and July 15, 1925. Average profits obtained by importers and wholesale dealers within the period between January 1, 1920, and December 31, 1924, were—where earned—in excess of those obtained by refiners, but such profits were not excessive; losses sustained by other dealers within the period of their operations were, in certain instances, of substantial relative amount when compared with the capital employed and volume of business done.

(10) I find and report that prices charged were reasonable and fair for gasolines sold to the people of Ontario in the period between January 1, 1924, and July 15, 1925—this having regard to the extent of the profits recovered and losses sustained by refiners and wholesale dealers, and notwithstanding certain of the conditions hereinbefore set out.

(11) During certain periods of 1924 retail prices for gasolines at Toronto and other points in Ontario were considerably higher than those required to be paid at Woodstock and Simcoe, for example. Variations in such prices were, in my opinion, attributable to these conditions, namely:—

(*a*) Dealers in Woodstock and Simcoe possessed railway trackage and capacity facilities and were, therefore, able during 1924 to purchase gasolines in tank car quantities and at distress prices. They then retailed such gasolines through service stations operated by them as adjuncts to other businesses and in so doing disregarded expenses which ordinarily require to be recovered from gasoline sales. Conducting their service station operations upon these bases they sold gasolines throughout the year 1924 at retail prices which averaged 5·55 cents per gallon above such import and reduced costs to them.

(*b*) The aggregate burden of expense sustained by the refiners, wholesale dealers and retailers examined, and in connection with wholesale and retail sale of gasolines in Ontario during 1924 amounted to a minimum of six and one-half cents and a maximum of ten and one-half cents per gallon on gasolines sold. Such costs were in excess of the average margins obtained by Woodstock and Simcoe dealers and—except in isolated instances and with certain dealers only—they left refiners and importers where they were unable to sell at Woodstock and Simcoe prices without sustaining losses.

These conditions, with adoption of the common policy on the part of importers to adhere to Imperial Oil Company, Limited, prices, the increased costs paid by certain of such importers for gasolines of improved quality, and the unwillingness of independent service station owners to operate on bases similar to those which obtained in Simcoe and Woodstock were, I find, responsible for the variations in price mentioned.

I desire, in conclusion, to acknowledge the courtesies and assistance given to me by officers of the Department of Public Works and Highways for the Province of Ontario, and by Dr. L. F. Goodwin, of Queen's University, Kingston.

I have the honour to be, Sir,

Your obedient servant,

(Sgd.) G. T. CLARKSON.

SESSION 1932

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

TUESDAY, MARCH 15, 1932

No. 2

Reference.—Price of Gasolene

WITNESSES:

Mr. J. Irwin, President, McColl-Frontenac Oil Co., Ltd.; Mr. L. A. Brooks, Comptroller.

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1932

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,
TUESDAY, March 15, 1932.

The meeting came to order at 10.30 a.m., Mr. Matthews presiding.

Members present: Messrs. Baker, Bothwell, Donnelly, Euler, Hanson, Matthews, McPhee, Peck, Perley, Pettit, Ralston, Smoke, Stanley, Vallance.

The committee again took under consideration the reference with respect to gasolene prices.

The Chairman informed the committee that a number of communications had been received in reference to local conditions obtaining throughout Canada and suggested that all such be referred to the subcommittee for consideration. This procedure was adopted.

The McColl-Frontenac Oil Company, Limited, appeared before the committee by its President, J. Irwin, its Comptroller, L. A. Brooks, its traffic manager and the Company Secretary.

Mr. Irwin expressed his regrets that due to a throat affection he was barely able to speak and Mr. Brooks was called, sworn and examined.

The witness filed several statements of costs and capitalization. (See Appendix to the printed Proceedings and Evidence.)

Much of the evidence required by the committee was not presently available and the examination was necessarily adjourned. The Company agreed to attend at a later date with the required information.

The company agreed to submit its books and records to the committee auditor if and when required.

On motion of Mr. Ralston the subcommittee was empowered to control and direct the work of the committee auditor.

The chairman informed the committee that the officers of the Imperial Oil Co. would be in attendance at the next meeting, Thursday, March 17, 1932.

Statements "A" and "B" filed by the witness will appear as an Appendix in a later number of the printed Proceedings and Evidence.

A. A. FRASER,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
TUESDAY, March 15, 1932.

The Select Standing Committee on Banking and Commerce met at 10.30 o'clock.

The CHAIRMAN: Gentlemen, we seem to have a quorum; we shall proceed with the inquiry into the price of gasoline to the Canadian consumer.

I have been receiving a number of letters and telegrams, and I have handed those to the clerk. I would suggest, with your permission, that these be reviewed by the sub-committee. With your permission I will ask those who receive communications with respect to local situations, to pass them to the clerk of the Committee, and they will receive attention in the way I have suggested.

Mr. HANSON: It is quite obvious that we cannot investigate local situations here, except incidentally. I think Dr. Donnelly has outlined in a general way what the Committee should do.

The CHAIRMAN: I think the best way to proceed is to ask the companies to give what information they have, and answer what questions we ask, first in regard to costs of production. Having taken that up, which we are doing to-day, and having exhausted that subject, we shall proceed to costs of distribution. It seems to me that that is the fair way to proceed, and therefore I have asked the McColl-Frontenac Company to appear to-day on the question of costs. I hope we will get through with that question to-day, and then for Thursday I have sommoned the Imperial Oil to give us the cost of operations. Following that I would suggest that we ask the British American to come and give us their version of the costs, if that meets with your approval. I shall now ask the McColl-Frontenac witness to give his evidence, but before calling on him, I am going to introduce Mr. Irwin to the Committee. Mr. Irwin is the president of the McColl-Frontenac Company, and he will say a word or two to the Committee before Mr. Brooks gives his evidence.

Mr. IRWIN, President, McColl-Frontenac: Mr. Chairman, and gentlemen, unfortunately I have developed a very bad cold which has developed into laryngitis, for which I am very sorry, because I desired to be the chief witness here this morning. However, Mr. Brooks, who is comptroller of our company and is familiar with all the operations of it, was brought along by me, and I shall ask him to deputize for me. I could only speak for a very short time before my voice would fail.

The CHAIRMAN: Mr. Brooks.

Mr. LESLIE ARTHUR BROOKS, called and sworn.

By the Chairman:

Q. Mr. Brooks, have you any cost sheets or other documents pertaining to the matters before the Committee?

By Mr. Hanson:

Q. Just before you answer that question—what is your position with the company; what are your duties?—A. I am the comptroller of the company.

Q. Financial comptroller?—A. Comptroller, which is, broadly speaking, comptroller of finances and accounting.

Q. In the accounting department?—A. Yes.

The CHAIRMAN: Have you any other questions?

Mr. HANSON: No; I wished to make it plain who he was, what his duties were.

By the Chairman:

Q. Have you any cost sheets to distribute?—A. I have prepared cost sheets of the various products which we manufacture and sell to the public throughout Canada, and I am prepared to submit those respecting the manufacture and sale of gasoline.

By Mr. Hanson:

Q. Just before you go into that, may I ask a question. Is your company a Canadian company?—A. It is a purely Canadian company.

Q. Are you producers of gasoline?—A. We manufacture all gasoline from crude.

Q. Where are your refineries?—A. We have one in Montreal and one in Toronto.

Q. Are you owners of crude oil wells?—A. No.

Q. Where do you buy your raw material?—A. Mostly from the States.

Q. Which field?—A. Some from Oklahoma, some from Texas.

Q. How is it transported to Canada?—A. By boat.

Q. By water?—A. Yes.

By Mr. Donnelly:

Q. Your own boat?—A. Through the boats held on long-time charter.

Q. Have you a statement that you wish to make?—A. Yes.

Q. Just let us have the statement.

By Hon. Mr. Euler:

Q. Do you refine all gasoline yourselves or do you buy some?—A. We buy some gasoline, and we refine the bulk of it.

Q. What percentage would you say; that is, approximately?—A. About between 85 and 90 per cent of what we sell is our own product.

By Mr. Hanson:

Q. About what proportion of the Canadian trade do you command in your company?—A. I did not quite get that.

Q. About what proportion of the Canadian demand do you supply under present conditions?—A. I do not think I am able to answer that question.

By Mr. Donnelly:

Q. How much gasoline do you sell?—A. About 64,000,000 gallons a year.

Mr. HANSON: About 10 per cent.

Mr. DONNELLY: About 10 per cent.

By Mr. Bothwell:

Q. You have only one copy of those cost sheets?—A. I have two copies.

Mr. BOTHWELL: I think it might be well, Mr. Chairman to have Mr. Brooks go through that statement and give us an explanation of what it means.

Mr. HANSON: I think it would be very much better if we could have it and follow it with him, because we cannot keep it in our heads.

The CHAIRMAN: You might go leisurely through that, and make it clear to the committee as you go along.

The WITNESS: Now, the first statement which I will touch on, which I will mark "A" is the cost and marketing expenses and profit on the gasoline which we manufacture. I will go through this. We made gross sales during the past year of 57,873,452 gallons, which were sold to the public for $9,541,-028.61. That is our revenue or our selling value to the public in Canada. From that figure we have deducted freight and trucking from our refineries to destination; that is either to the bulk station or to the service station which supplies the public.

By Hon. Mr. Euler:

Q. I should like to ask you a question. Do you sell entirely through your own service station or do you sell to independent dealers?—A. Well, we sell through our own stations and to dealers.

Q. Independent dealers?—A. Independent dealers. Freight and trucking to the refinery amounted to $709,124.82. Then there is a heavy item for taxes, both municipal and business tax, school taxes and so forth, amounting to $103,044.71. Then the next deduction from the gross sales is sales tax, which amounts to $166,463.96. Then, the marketing expense the cost of putting that product before the public—

By Mr. Bothwell:

Q. Just what is included in that?—A. Everything, tank wagon expense, wages, the tanking of the products, expense of maintenance of customers' equipment—a dozen and one different things.

By Mr. Donnelly:

Q. Advertising?—A. Advertising is included in that. That is, $1,343,-355.48.

By Mr. Hanson:

Q. Just what does that work out per gallon to the consumer?—A. To the consumer?

Q. Yes.—A. That one item? The cost to us per gallon on sales is 2.32 c.

Q. That is very large.—A. Then, following that is general administration and depreciation, $997,320.69.

By Mr. Bothwell:

Q. What is that figure again?—A. $997,320.69.

By Mr. Hanson:

Q. General depreciation. What is your set-up for that?—A. General administration and depreciation.

Q. Administration and depreciation?—A. Yes.

Q. Do you separate them? It seems to me they ought to be separated.—A. They are separated in our books.

Q. You separate them here, please.—A. I cannot separate them here, sir, I have no information.

Q. You can get that information?—A. I can get that information.

Q. Why do you set them up together here?—A. Well, the figures that I am quoting now are a summary, drawn from our books. If I had anticipated you would ask that question, I would have split those in two. It can easily be done.

By the Chairman:

Q. Can you get those separated if you telephone to Montreal this morning?—A. I very much doubt if I could do that, because we have—

By Mr. Hanson:

Q. How do you carry those two items in your balance sheet? Are they together?—A. They are all in the balance sheet reflected in the surplus account.

Q. They are together here?—A. Well, these are expenses.

Q. They are debits.—A. The figures that I have just read come to a total of $3,319,309.66, which deducted from the $9,541,028.61 give a net figure of $6,221,-718.95, which is the net to the refinery. In other words, the profit made, the profit after the distribution of the product has been charged against the selling price. Do I make myself clear? Now, from that $6,221,718.95 we deduct the price of crude oil and other materials entering into the manufacturing of gasolene. These products amounted to $4,102,277.28.

By Mr. Bothwell:

Q. Can you tell us at this stage what the average cost of your crude oil was last year?—A. I cannot tell you that sir, not at the moment. I can get that for you. Deducted from that last figure is the inventory adjustment of $14,843.22, which leaves a total cost of crude oil and other materials of $4,087,434.06. Add to that the actual manufacturing expenses, or the cost of refining the crude oil, and producing gasolene, and the other products which are manufactured at the refinery, amounting to $931,754.49. Then, there is a further figure of depreciation on the refinery assets of $149,469.72, and taxes on the refinery properties, $55,365.39, a total manufacturing cost of $5,224,023.66. Deducting that figure from the $6,221,718.95, we have the net earnings from gasolene before providing for income tax or for interest on borrowed money, that is, bonds, $997,695.29, or 1.72 cents per imperial gallon. That is the first statement, and covers what we produce at our own refineries.

By the Chairman:

Q. What is the interest on borrowed money?—A. Interest on bonds.

Q. What does that amount to?—A. We have ten millions of bonds, outstanding, approximately $600,000 a year. Now, the statement marked "B"—

By Hon. Mr. Ralston:

Q. For the year ending when?—A. January 31, 1932, the last fiscal year of the company.

Q. I was not here when you began, but I understand what you have been doing is separating the two operations; that is, the refinery operation from the sale and distribution operation.—A. Exactly.

Q. You have taken the gross revenue, as you finally received it from the customer, and deducted all costs of distribution and sale?—A. Yes.

Q. But there has been no allowance for providing interest except one rather nebulous item of depreciation and administration?—A. Yes.

Q. Therefore you have thrown back all the profits, whatever they might be, in the refinery operation?—A. No, the distributing end, distribution, has been charged or rather the figures that I have shown in distribution here have been charged with what they should be charged—the cost of taking our products from the refinery and delivering it to the public.

Q. But in the costs you have taken the gross revenue?—A. Yes.

Q. You have deducted the cost of the sales and distribution operations, and all the rest you put back as the gross receipt from refinery operations?—A. Yes.

Q. Which has to be reduced by the cost of crude and by the cost of manufacturing and by depreciation and all other charges which are made against—A. Exactly.

Q. —refinery operation?—A. Yes.

Q. Therefore, you have brought out a profit of 1·72 cents?—A. 1·72 cents.

Q. Per gallon wholly in connection with refinery operation, and you are showing net profit you say in connection with sales distribution?—A. No.

Q. I understand you to say that income tax and interest as well has to be taken off?—A. Yes; but this 1·72 is after distributing expenses.

Q. I know that. You have taken off distributing expenses first.—A. Exactly.

Q. That is in lump— —A. Yes.

Q. Then you have the net amount after as the proceeds of the product of your refinery?—A. That is correct, sir.

Q. Then you take off from that net amount the cost of manufacturing in your refinery, and the cost of crude and whatever charges there are?—A. Yes.

Q. Leaving, let us say, a gross profit, if you like, per gallon of gasoline produced there— —A. Yes.

Q. —of 1·72 cents.—A. Yes.

Q. Then you say that there should be charged interest on borrowed money amounting to $600,000 a year, and income taxes.—A. Yes.

By Mr. Hanson:

Q. Did you say what these were?

Hon. Mr. Ralston: He did not say what the income tax was.

The Witness: I have not the income tax figures here. I have stopped at that point in this statement.

By Hon. Mr. Euler:

Q. That is all you do. You are not showing what profit you are making from your service stations as such. I take it your service stations are charged so much a gallon for each gallon of gasoline.—A. Yes.

Q. You sell it at a certain price, and you take the profit made by your service station. That is not what you have done in the statement that you have made.—A. That factor lies behind the figures of depreciation in this statement.

Q. You have given the figure of 1·72 cents a gallon as the net profit that you are making. That is, before you provide for certain other things you mention as the whole enterprise, everything including manufacturing, selling to your service stations, independent stations—

Mr. Hanson: No, I did not understand that. All refinery operations.

Hon. Mr. Euler: No.

The Chairman: No.

By Hon. Mr. Euler:

Q. You have not separated the profit you are making through service stations from what you are making through manufacturing?—A. Not in this statement, no. That is the profit regardless of how it is made.

Q. The net final profit you are making per gallon.—A. Yes.

Q. Whether you are selling to service stations or selling to independent dealers?—A. Whether we sell in tank cars or tank wagons, or independent dealers, or to our own service stations.

By Mr. Bothwell:

Q. Does that 1·72 include your profits on other products besides gasoline, or is it just simply gasoline?—A. That is purely gasoline.

By Mr. Donnelly:

Q. In refining your gasoline, you will be getting also kerosene and by-products from the same operation?—A. We would be. Those figures are not included in this.

By Hon. Mr. Ralston:

Q. How do you separate the costs of handling other products that are not refined through your service stations?—A. Some of those costs can be charged direct to the product. For example, freight. You move a freight car, a tank car of gasoline, and you know it is gasoline. If it is kerosene, you know it is kerosene. If it is fuel oil, you know that. You can charge that direct. You can charge many of the other expenses direct; but there are other items which cannot be charged direct, my salary, for example. There is no way of distributing between gasoline and kerosene or fuel oil, the matter of my salary.

By Mr. Hanson:

Q. That all goes into overhead?—A. All goes into overhead, and that is described—

Q. So that you have different operations?—A. Over all the products, yes.

By Mr. Bothwell:

Q. How do you distribute the cost of crude?—A. The cost of crude is charged into the refinery and allocated over the products that are produced.

Q. What method of computation do you use to allocate them?—A. That would be a very difficult question to answer at the moment.

Q. You must have some method that is adopted generally, I would say.—A. We have a method, and it is a method that is, I think, common to many refineries and it is based on a book published some years ago by an eminent British accountant in conjunction with an American accountant. That system is the system that we are using to establish our refining costs.

Q. Can you tell us what that system is?—A. I do not think I can go on and tell it exactly intelligently this morning. I am perfectly willing to explain it to anyone whom you would care to send. I have not got the figures in front of me; but I could give you that information, or give your accountant that information, by throwing the whole thing open to him. There are so many factors that enter into the manufacture of gasoline that figures have to be shown in order to answer that question intelligently.

By Mr. Donnelly:

Q. In this price you give us here, in regard to crude, what amount of crude is taken to make gasoline?—A. Seventy per cent.

Q. That is the crude that is taken and has produced gasoline?—A. Only?

Q. Only.—A. But of course in this figure of crude oil, there are other materials—

Q. What I mean is this: if you bring in 100 gallons of crude oil, you will get probably sixty or seventy—fifty to seventy gallons of gasoline out of it. Do you charge it all to the gasoline, or do you charge the amount that you get—A. Only the portion that produces gasoline. That is all that is in that statement.

By Mr. Bothwell:

Q. Can you tell us what proportion that is?—A. That will vary with the kind and type of crude that is being used. It is probably varying from day to day in our refineries.

By Mr. Donnelly:

Q. You get your crude, you say, from Oklahoma, and from Texas? Now, can you give the committee first of all, what you mean by the A.P.I. gravity?—A. I am not a refinery man; I don't know very much about that.

Q. Can you give us the average price per month last year that you paid for gasoline?—A. I cannot do that, I am sorry. I have not the information here this morning.

Q. Can you give us the cost of piping it to the gulf from these fields? Or do you buy it right at the gulf?—A. We buy it down at the posted price in the fields and pay the pipe-line charges to the gulf.

By Mr. Hanson:

Q. That is a public utility charge and is well established?—A. It is an established charge, yes.

By Hon. Mr. Euler:

Q. Why do you buy refined gasoline when you are in the business of refining yourselves?—A. We have two refineries in eastern Canada, Montreal and Toronto, which refine for the different parts of the east; but in western Canada we buy gasoline.

By Mr. Bothwell:

Q. From whom do you buy?—A. The Imperial Oil company.

Q. All gasoline within the last few years is purchased from the Imperial Oil?—A. Most of it within the last year.

By Hon. Mr. Euler:

Q. You do not import?—A. No, we do not; we have not imported this year.

Q. You buy from the Imperial Oil of Canada?—A. Yes.

By Mr. Donnelly:

Q. What percentage of gasoline do you get from thirty-five gravity?—A. I am afraid, Dr. Donnelly, I cannot answer that question this morning.

Mr. Donnelly: Mr. Chairman, I do not think we are getting anywhere this morning. We want a man here who is going to tell us what they paid for crude oil for the last two or three years at the field. Then we want to know what it cost to ship it to the gulf. We want to know the cost of transporting it to the refinery, and we want to know how much gasoline they got out of crude oil, that is, the average amount per gallon at the A.P.I. gravity; we want to know what it cost them to produce this gasoline

Mr. Hanson: And what it cost to get it distributed.

Mr. Donnelly: We have to start with that first.

Mr. Hanson: I think we are beginning in the reverse order. You are coming down from the top.

The Chairman: Mr. Brooks, will you go on with your second statement?

Mr. Hanson: I see here a charge of 5·74 cents per gallon. It looks to me like one-third of the whole.

By Mr. Donnelly:

Q. Can you tell us what proportion you distribute to the service stations, and what percentage you sell in tank car lots?—A. It will be a guess if I answer that question, Dr. Donnelly. I am sorry I have no information here.

Q. What is your price at Montreal in tank car lots for the average year?—A. I don't know that.

Q. Has it been on an average for the year, 13½ cents?—A. That price—

Q. You have given us fifty-seven millions as being the number of gallons sold, and your selling price of nine million dollars, and that amounts to only 11⅑ cents a gallon. If you are selling tank car lots at 13 cents, you are selling to your service stations at more than that?—A. A lot of the business is sold in tank wagon prices.

Q. Tank wagon prices are higher.—A. Tank wagon prices are higher.

Q. You only got 11 cents for that,—practically 12 cents for that gasoline; and what you are delivering in tank car lots you are selling for something like 14 cents, and tank wagons would be about 17 cents?—A. The figure of tank wagon and tank car would be comparable to that, 16·49 cents.

By Mr. Hanson:

Q. That is the gross return from the sale whether tank wagon or tank car. What is the difference between tank car price and tank wagon price to the independent dealer?—A. I am afraid I do not know that.

Mr. Choyce (*Secretary*): Between three and four cents at the present time.

By Mr. Hanson:

Q. Would this be the average for the last 12 months?

Mr. Choyce: About that.

By the Chairman:

Q. I suppose this information could be produced on Thursday?—A. I can get that. Had I anticipated that, I would have got it now.

The Chairman: This information that has been asked for, is not available now, but will be produced. Will you proceed with your second statement?

The Witness: Statement "B" is the gasoline which we buy and sell, but do not manufacture. Our sales of this gasoline—

Mr. Hanson: Again this statement is made up on the set-up of your gross sales, and it is coming down from the top, and showing a profit of 1·72 cent a gallon.

The Witness: Yes.

By Mr. Hanson:

Q. They are both on the same basis?—A. The same basis, yes.

By Hon. Mr. Ralston:

Q. Gasoline only?—A. Gasoline only.

Q. Which requires distribution of and administration costs in connection with service stations as between gasoline and other products?—A. Yes.

Q. The details of which are not here?—A. No, I have not the details; but naturally the figures that I have given here are all in our books. I could not get them otherwise.

By Mr. Bothwell:

Q. Just before going on with this statement, that item of 1·72 cent per imperial gallon that you show as a profit there before income taxes and certain other interest charges are allowed, can you give us the figures as to what should be deducted from that 1·72?—A. There will be a proportion of the bond interest, and a proportion of income taxes applicable to gasoline.

Q. Can you give us any idea what those items are?—A. I could only guess at the figures now.

Q. Can you obtain them for us?—A. I can, yes.

The CHAIRMAN: Go on with your statement.

The WITNESS: Statement "B" shows gasoline not manufactured by us. We sold 7,220,876 gallons, which gave us a gross revenue of $1,482,085.94. From that we have deductions for freight and trucking of $23,536.18, taxes $16,000.15; no sales tax; marketing expenses, $208,588.02, and general administration and depreciation expense, $154,857.85, making a total of $402,982.20, leaving a net to the refinery of $1,079,103.74. Taking the cost of gasoline and other materials at $1,046,368.88, add inventory adjustments of $13,529.80, we get a total cost of $1,059,898.68. There are no manufacturing expenses or depreciation in refineries in that; so the net earnings before interest on bonds and income taxes are $19,-205.06, or ·27 cents per gallon.

By Mr. Hanson:

Q. Again there is a spread of 5·58 cents a gallon between your selling price and your cost price.

Hon. Mr. RALSTON: What are you reading from, Mr. Hanson?

Mr. HANSON: From the statement.

Hon. Mr. RALSTON: You quoted a five cent spread before.

By Mr. Hanson:

Q. In other words, on the gasoline you buy from the Imperial Oil, it costs you over 5½ cents a gallon to sell it?—A. Yes.

By the Chairman:

Q. What is that spread?—A. 5·58 cents.

By Hon. Mr. Ralston:

Q. Is the gross revenue actual cash, or do you include in it goods sold on credit and make allowance for bad debt?—A. No, this is the actual sale.

Q. Cash?—A. Cash—not necessarily cash. If there are any bad debts the bad debts are reflected in the marketing expense. This is what we have billed to our customers; whether we have collected it or lost it I cannot tell you.

Q. The same thing applies to gross revenue in statement "A"?—A. Exactly the same.

The CHAIRMAN: Are there are any questions to be asked in regard to this statement?

By Mr. Hanson:

Q. How does your cost distribution compare with the other companies? I think that is where the consumer is scorched through this gasoline business, in the cost of distribution?—A. I have no idea.

Q. You all buy at the same field, as a rule?—A. Not necessarily.

Q. But they buy from the big fields. That is the general statement. That is true?

The CHAIRMAN: He buys in the United States.

Mr. HANSON: I know. That is where the big fields are.

Mr. DONNELLY: Practically all the same price.

By Mr. Hanson:

Q. And the cost of transportation to Canada would be constant and common to all from the same fields?—A. I imagine it would be from the Texas field.

Q. Take one field, if you like. The cost would be common to all of you.—A. Yes.

Q. Now, your refining cost would be governed to a large degree by the volume, would it not?—A. Volume, and the type of equipment.

Q. And the type of equipment. If you had the same volume it ought to cost you approximately the same figure per gallon that it would cost any other company—perhaps you are a little better refinery.

Mr. STANLEY: If the refineries are in the same place.

The WITNESS: I presume so.

Mr. HANSON: Approximately in the same place.

Mr. STANLEY: Altogether different.

The WITNESS: There might possibly be a difference in refineries. Labour is quite a big consideration in refining cost.

By Mr. Hanson:

Q. I suppose the Imperial Oil company would pay the same price as you would in Montreal and Toronto. They are comparable?—A. Yes, the same—two refineries in the same town.

Q. And the cost of distribution of a smaller volume, marketing expenses and so forth, would be relatively greater than a large volume would it not?—A. Yes.

Q. That might account for your high cost of distribution?

By Mr. Donnelly:

Q. What is the size of your plant in Montreal?—A. The plant?

Q. Yes.—A. 5,000 barrels a day, capacity.

Q. Of gasoline?—A. Gasoline.

Q. How many men do you employ?—A. I think we have about——

Q. I mean, in your refining plant in Montreal. How many men do you employ in the refinery plant?—A. I think in the neighbourhood of 150.

Q. One hundred and fifty? Can you give me the average wages paid to these men?—A. I am sorry, I have not got that. I can get it for you.

By Mr. Bothwell:

Q. When was this refinery built in Montreal? Has it been remodelled; is it up-to-date?

Mr. IRWIN: 1927, 1928.

Mr. BOTHWELL: This company was incorporated in 1928.

Mr. IRWIN: Yes.

By Mr. Bothwell:

Q. By an amalgamation of two other companies?—A. Yes.

By Hon. Mr. Ralston:

Q. How often do your prices change? Is there a monthly bulletin, or two week bulletin, or any stated time at which the prices are posted?—A. I think——

Mr. HANSON: Gasoline or crude oil?

Hon. Mr. RALSTON: Gasoline.

The WITNESS: I do not think there is any stated time; I think it depends on the posted price of crude at the market.

By Mr. Hanson:

Q. Is that the only factor?—A. To my knowledge, yes.

Q. The price of crude?—A. I think so.

Q. Is there no competition between you?—A. By competition you mean what?

Q. Between you and the Imperial Oil?—A. We have to—we cannot sell under the Imperial Oil.

Q. They fix a price, don't they, Mr. Brooks?—A. I cannot tell you that.

By Mr. Hepburn:

Q. You say you do not like to sell under the Imperial Oil. Is that right?

By Mr. Hanson:

Q. You have to toe the mark. When they drop the prices you drop them too?—A. They are the big people at the business.

By Mr. Bothwell:

Q. Have you any person in your company who fixes the prices from time to time for your company, or do you simply follow the Imperial Oil prices?—A. I think we follow our biggest oil company in the field.

Q. You follow the biggest oil company in the field?—A. Yes.

Q. Mr. Ross of the Imperial Oil says that in fixing the cost of gasoline the yardstick is the price of American crude. Is that a correct statement?—A. To my knowledge, yes, but I cannot say.

Q. You have no knowledge, as a matter of fact?—A. No.

By Mr. Hanson:

Q. In other words, you are here to fortify the statement?—A. That is all.

By Mr. Hepburn:

Q. Mr. Brooks, you just said you cannot sell under the Imperial Oil prices. Would you explain that a little more fully?—A. I don't mean to say that, really. I have tried to answer the other questions——

By Hon. Mr. Ralson:

Q. What I was asking, Mr. Brooks, was, if it were possible to give us a list of the prices, say month by month for the last three or four years, if you like. When I asked you that question, I thought that probably you posted your prices periodically. If you do not do that, would it be possible to give us a list, say for the last three years, beginning January, 1929?—A. You mean the price to the public?

Q. Price to the consumer.

Mr. Hanson: You have to distribute that between tank car lots and tank wagon.

The Chairman: Would Mr. Smith take up that question of distribution costs?

The Witness: I do not know whether he would or not.

The Chairman: Gentlemen, I draw your attention to the fact that we are still on costs, and I would much prefer we did not discuss distribution until we are through with this item. I think we should have all he has to say in regard to costs.

Hon. Mr. Ralston: Costs of distribution.

The Chairman: We are really on the question of manufacturing costs. We are going to give time to distribution costs and distribution prices. You want to go into that separately; and I think we should confine ourselves to-day to the cost of production of gasoline.

Mr. DONNELLY: If we are going to get the costs, we have to get the cost first of all at the field, and then we have to get the cost of transporting the crude oil to Montreal. We have not got anybody here to-day who can tell us that, apparently. That is the first question we have to build on.

Mr. BOTHWELL: I believe, Mr. Chairman, we should confine ourselves to the tank car prices at the refinery and everything that goes into the cost of producing gasoline—tank car price at the refinery, and then we can take up the tank car cost and tank car selling price at the refinery; and from there we can follow up the distribution separately, as the chairman rules.

The CHAIRMAN: That has been my suggestion.

By Hon. Mr. Ralston:

Q. Then following up my question, can you file with the committee—I am not asking you to read it out now—for future use, a set of prices in tank car lots at Montreal, month by month, beginning from the first of 1929?—A. Tank car selling prices? Yes, I can do that.

By Mr. Donnelly:

Q. At the same time, will you file with the committee prices for crude oil month by month for the last two years, in Oklahoma, Texas, Bolivia, Peru, and South America, and the cost of piping it to the gulf or to the water, and the cost of transporting it from there by boat to the Montreal refinery? So that we will know definitely what your costs are?—A. Do you mean other companies?

Q. Whatever I can get from you.—A. Yes.

Q. And laid down at Montreal, what your crude oil costs. Then, I want you to take the A.P.I. gravity, thirty-five—take the average thirty-five A.P.I crude oil and tell me the amount of gasoline you get out of that in your refinery, and what the waste is, the amount of evaporation, amount of water, amount of fuel oil, and distillate, and all other by-products, so we will know definitely the amount of gasoline you get out of every barrel. Take the American barrel. Do you know how many gallons there are in it?—A. Forty-two gallons.

Q. Forty-two gallons. So that we will know how much gasoline you get out of a barrel of crude, how much kerosene, how much by-products, and how much waste, so that we will be able to trace the cost exactly ourselves.

With regard to refineries, the number of men and the wages you pay to the men at Montreal, and the number of men in your Toronto concern, and the wages you pay in your refining plants, but not with regard to distribution at all. We want it just in regard to your refining plants, so we will be able to come to some estimate of what the cost of gasoline is and the by-products.

By Mr. Hepburn:

Q. There is no tax on imported crude, is there?—A. There is an import tax.

Q. One per cent, which is a nominal tax.—A. Yes.

Q. You can buy your crude as cheaply as any other refinery?—A. I imagine so; we can, yes.

Q. You can?—A. We can.

By Mr. Donnelly:

Q. How much gasoline did you import during the last year?—A. Import?

Q. Yes.—A. We did not import any.

Q. You did not import any at all?—A. No.

Q. Did you import any the year before?—A. I am not sure. The figures I am quoting here are for last year.

Q. You buy the gasoline that you do not manufacture?—A. Yes.

Q. What do you mean by the octane test?—A. The octane test? It is technical—

By Hon. Mr. Ralston:

Q. The gasoline you buy from the Imperial Oil I see you buy it in tank car lots?—A. We do not buy it in the east, we buy it for western Canada.

Q. What I am speaking about, is the cost to Nova Scotia and New Brunswick. You distribute there?—A. Yes.

Q. Your own manufactured product?—A. Yes.

Q. And where do you put it in barrels out of the tank cars in order to distribute it to fishermen and other consumers?—A. Wherever the bulk station is, that is our distributing point.

Q. Is there one at St. John?—A. One at St. John.

Q. One at Halifax?—A. One at Halifax.

Q. Where else—A. Moncton, Sussex.

Q. Is there any other in Nova Scotia other than Halifax?—A. At Nova Scotia, Prince Edward Island and New Brunswick.

Q. Are there any others in Nova Scotia other than at Halifax?—A. Sydney, Cape Breton, and Yarmouth.

Q. Any other point?

Mr. SMITH: There are about 12 in the province of Nova Scotia.

By Hon. Mr. Ralston:

Q. That is all your own product refined in Montreal?—A. Yes.

By Mr. Hanson:

Q. How do you transfer it from Montreal, by tank steamer?—A. By tank steamer to either Halifax or St. John.

Q. Then you distribute it by tank cars from there?—A. By tank car from those two storage tanks or bulk terminal.

By Mr. Donnelly:

Q. Are the prices we get from the Petroleum News reliable—A. I think they are recognized as being absolutely correct.

Q. You consider them correct?—A. Yes.

By Hon. Mr. Ralston:

Q. My question in regard to tank cars at Montreal won't cover all cases, because you spoke of distribution by tank steamer and then at a filling point, a distribution point. Can you give me also the prices say at Halifax, Yarmouth and Sydney for those same dates?—A. In tank wagon, tank car?

Q. No, in barrels.—A. In barrels?

Q. Yes.—A. Yes, I can do that.

The CHAIRMAN: Now, let Mr. Brooks proceed with statement "B" and finish it.

Hon. Mr. RALSTON: I understood he had finished it.

Mr. STANLEY: In regard to statement 'A", he has given us the net profit on gasoline at 1.72 cents per gallon. Now, in addition to that, is there any profit made over and above what you actually get out of the sale of gasoline to the consumer. Do you make anything out of the by-products?—A. We manufacture and sell kerosene, fuel and lubricating oils.

Q. That is all a part of the profit which comes from the original field?—A. From the crude, yes.

Q. You charge up tares, charge up depreciation and so on?—A. Yes.

Q. As against gasoline?—A. Oh, no; the kerosene and the fuel oil carry their share.

By Hon. Mr. Ralston:

Q. On the basis of value?—A. On the basis of value, yes.

Q. Mr. Brooks, can you help me in this. Do you only make 1.72 cents per gallon on the manufacturing of gasoline, and no profit at all on the distribution, because all the profit has gone into the refinery owing to the computation. Can you suggest to me now how independents can offer gasoline for probably three cents cheaper than you can sell it, and exist?—A. No, I cannot.

By Mr. Hepburn:

Q. What is the capital of your company, Mr. Brooks?

The CHAIRMAN: I think Mr. Brooks is going to give us a statement of the capital structure, and he might do that now.

The WITNESS: Answering your question, Mr. Hepburn, the capital stock of the McColl-Frontenac consists of common shares and 6 per cent cumulative preferred shares. There are 500,000 shares of common, and there are outstanding 78,068 shares of preferred.

By Hon. Mr. Ralston:

Q. At $100 par value?—A. $100 par value, preferred.

By Mr. Hanson:

Q. The common stock has no par value?—A. The common stock has no par value.

In adition there are 6 per cent first mortgage redeemable collateral trust golds bonds to the value at par of $9,780,000.

Q. Issued?—A. Issued.

By Mr. Hepburn:

Q. Nine millions what?—A. $9,780,000.

By Mr. Hanson:

Q. Have you your balance sheet here?—A. I have, yes.

By Mr. Bothwell:

Q. The balance sheet for January 31, 1932?—A. No, I have not got that, I have the previous year.

By Mr. Hanson:

Q. Let us see one of them. This is your annual report.

By the Chairman:

Q. Are you going on with the capital structure?—A. Yes, I would like to go on with that.

The CHAIRMAN: Mr. Brooks would like to proceed.

Mr. BOTHWELL: The balance sheet for January 31, 1931.

The CHAIRMAN: Will you kindly let him finish his capital structure?

Mr. HANSON: I cannot follow the figures. I want them in front of me, if I can get them.

By Mr. Hepburn:

Q. Have you another 1931 statement there?—A. Yes.

The CHAIRMAN: Go ahead, please.

The WITNESS: In regard to the common shares of the company, as I understand it, and according to the auditors, P. S. Ross and Sons, there are 500,000 shares outstanding of which 379,515 shares were sold for cash, realizing $6,739,342.75, or an average of $17.75 per share. In that connection I would like to refer to Hansard of June 12, 1931.

In Hansard, June 12, 1931, there is, apparently, a misunderstanding of the true facts of the case. There was a remark made by Mr. Bothwell, and in referring to the common stock of the company, he said: "This is stock that costs no money." I make a statement now that 379,515 shares were sold for cash.

By Mr. Bothwell:

Q. How many shares?—A. 379,515.

Q. Just let me ask a question at that stage. Your first offering of this new company was 7,500,000 shares of preferred stock?—A. Yes.

Q. With a bonus of four shares of common with each ten shares of preferred stock; is that not right?

Hon. Mr. Ralston: Dollars.

Mr. Bothwell: Yes, dollars. $7,500,000 of preferred stock was offered to the public, with a bonus of four shares of common stock with each ten shares of preferred. Is that statement correct?

The Witness: Yes it is. But it was not the company that offered that bonus to the public, it was the brokers who underwrote the issue.

By Mr. Hanson:

Q. That brings us to another aspect. Let us get back to the beginning, Mr. Brooks. This corporation is really a holding company, is it not? This corporation, the McColl-Frontenac Oil Company Limited, is an amalgamation of the McColl and the Frontenac Oil Companies and they are still in existence?—A. Yes.

Q. Your bonds are secured by collateral trust mortgage on the shares of this company?—A. The shares and certain specific assets.

Q. Certain other mortgages—

Hon. Mr. Ralston: Excuse me, are there underlying bonds?

Mr. Hanson: Yes.

The Witness: All owned by McColl-Frontenac. By the outstanding bonds you mean outstanding bonds of the Frontenac Oil or McColl Brothers? They are all owned by McColl-Frontenac. There is no indebtedness to the public.

By Mr. Hanson:

Q. No outstanding indebtedness?—A. No.

Q. There are mortgages. I see in the liabilities here there is a debit of $432,275.55 for mortgages payable. Are those on properties acquired since the amalgamation?—A. Yes.

Q. Do you know what was paid to the McColl Brothers for their property as a going concern, and how much was paid to Frontenac, first by the brokers and then what did the brokers turn over to the new company which they caused to be created?—A. I will answer that question. For the outstanding—

The Chairman: You are making it very difficult for the witness.

Mr. Hanson: I have no doubt it is difficult. That is the intention.

The Chairman: Pardon me, I do not mean the question. I mean when members proceed with conversation during the answer of the witness, I think it makes it difficult for him to be heard. I think it would save time for the committee if you would let him answer the question.

The Witness: McColl Brothers, one of the companies that was purchased —we bought the outstanding stock, 150,000 shares.

By Mr. Hanson:

Q. When you say "we", whom do you mean?—A. I mean the McColl-Frontenac.

Q. From the brokers? From Nesbitt and Thomson?—A. The money we paid—we bought McColl Brothers stock direct.

By Hon. Mr. Ralston:

Q. From the holders?—A. From the holders, yes, at $65 a share.

By Mr. Hanson:

Q. What did it cost in round figures?—A. It cost $9,750,000.

Q. Was that purchase made from the operating— —A. The properties there were all purchased through brokers—I am afraid I cannot answer that, I do not know.

Q. It is very important.

Mr. IRWIN: The purchase was made in the following manner. It was decided that McColl-Frontenac be formed with $7,500,000 of preferred stock, and 750,000 shares of common stock, 500,000 shares of the common stock to be issued, and 250,000 to remain in the treasury. I think you have the statement there, Mr. Brooks. The preferred stock yielded six per cent, and the preferred stock of 82,053 shares yielded us $8,205,300. The common stock sold by our financial agents netted us $17.25 a share—$17.75 a share.

By Mr. Bothwell:

Q. How many shares of those were sold?—A. 500,000 shares, $8,890,000. From the proceeds of the preferred and common stock, we purchased McColl Brothers, paying $9,780,000. In that item of goodwill there, you will see seven million dollars. Six million of that is represented by the difference between $25 a share as stock put on the McColl books and $65 a share we paid for it. A difference of $40 a share on 150,000 is $6,000,000. This, as the gentleman said, is a holding company.

Q. How many shares of common stock was turned over as a bonus on the subscriptions for preferred stock?—A. I beg your pardon?

Q. How many shares of common stock were turned over to preferred share purchasers as a bonus?

By Mr. Donnelly:

Q. Was it done by the broker or the company?—A. The fiscal agents when they made the offer, offered four shares of common with each preferred share.

Q. The broker did that?—A. The broker did that.

By Mr. Bothwell:

Q. How many shares went out that way?—A. Just one moment; I can give you that. There were 75,000 shares sold; seven and a half millions, one quarter of that would be 90,000 shares.

By Mr. Hanson:

Q. You paid the McColl Company nine million odd for that?—A. $9,750,000.

Q. That was profit out of the proceeds of this corporate financing?—A. Yes.

Q. The Frontenac Company, how did you acquire that? It is not fair to ask you that question, Mr. Irwin, having regard to the condition of your voice.

The WITNESS: May I hear the question again?

By Mr. Hanson:

Q. What did you pay for the Frontenac Oil Company. How did you buy it?—A. We bought the controlling or all the outstanding common shares which were 120,485, and they were exchanged share for share for shares of McColl-Frontenac Oil Company.

Q. All common?—A. All common. Now, that figure of 120,485 added to the 379,515, which was sold at a price of $17.75, totals 500,000 shares presently outstanding.

Q. From whom did you buy the Frontenac Oil Company, Nesbitt and Thomson?—A. It was exchanged.

Q. Who held them; Nesbitt and Thomson held this company, didn't they?

Mr. Irwin: No, it was spread all over the country.

By Mr. Hanson:

Q. It is quite apparent, what I want to get at, Mr. Brooks. What I want to get at is this: how much water was pumped into this thing at the time of amalgamation of those companies?

Mr. Jacobs: That is more or less a crude question.

Mr. Hanson: That is exactly what we ought to have.

Mr. Irwin: Have you got a statement there? I will take it from Mr. Geoffrion.

Mr. Geoffrion: I would suggest you draw your own inference. I will read you the figures, and you can draw your own inference as to what water was pumped in.

Mr. Hepburn: Did the company do the watering or the brokers?

Mr. Hanson: The brokers, of course.

By Hon. Mr. Ralston:

Q. There is one item Mr. Irwin has mentioned, which I should like to refer to, and that is the McColl shares, the old McColl Company shares were on the books at $25 and the new company paid $65 for them. My question is to whom did the new company pay the $65?—A. To the holders.

Q. Who were the holders?

Mr. Irwin: J. W. McColl and other people.

Q. Individual holders?—A. Yes.

Q. It was not paid to the brokers?—A. No.

Mr. Hanson: I asked him that and he said that before.

By Hon. Mr. Ralston:

Q. As far as the brokers were concerned, the $65 profit on the McColl stock was made by the holders of the McColl stock?—A. By the holders of the McColl stock.

Q. $40 was profit made by the owners of the McColl stock?—A. Yes.

Mr. Geoffrion: I appear for the company, and I suggest that you would get more satisfactory evidence on those matters from Mr. Irwin when he is in a position to speak.

The Chairman: Quite so.

Mr. Geoffrion: He is the one to give this evidence, and the accountant can give you the figures in regard to the different matters. I suggest that you ask this gentleman about the further matters with which you are interested, and leave the rest for Mr. Irwin when he is in a condition to talk.

By Mr. Hepburn:

Q. Can you give us the entire interest carrying charge on your company. I mean by that, can you give us the amount of interest paid on mortgages, bond interest and all profits given to shareholders, entire carrying charges?—A. I have everything in that statement except—

Q. Can you give it to us now?—A. No, I cannot, because I do not know how much the mortgage interest is.

Q. We want to know what the mortgage charge is, overhead and everything. —A. I have not got the mortgage interest now.

Q. I think that should have some relationship to the amount of money actually employed.

By Mr. Hanson:

Q. Should it not appear in the profit and loss account, the bond interest?—A. Yes, that is an easy matter.

Mr. HANSON: The bond interest, $523,000.

Mr. HEPBURN: Let him give it. He is before the committee. He can give that.

Mr. HANSON: Just read it.

The WITNESS: I can get the bond interest very easily, but you asked for the mortgage interest, and I have not got that; I have not got it here.

By Mr. Hanson:

Q. Can you give it to us at the next sitting?—A. I could.

Q. What is this item of $522,038.17 interest on bonds in your balance sheet in your profit and loss account for the year ending January 31, 1931?—A. That is interest on the 6 per cent bonds; but this gentleman here has asked for the interest on mortgages. I have not got that.

Q. The bonds are secured by a mortgage.—A. You have pointed just now to the mortgage payable—you pointed to the mortgage on the balance sheet. Well now, I presume you want the interest that has to be paid on this liability.

Mr. HANSON: It is only a small item.

Mr. HEPBURN: That is interest.

The WITNESS: I will get it for you.

By Mr. Bothwell:

Q. I should like to ask about what you call consolidated income and surplus account for the year ending January 31, 1931.—A. That is the one that Mr.— it is right in there, turn to the left.

Q. That is in addition to what is in this particular report that was brought out on January 31, 1931, what you call apparently the consolidated income and surplus account for the year ending January 31, 1931. That shows a profit from operations and income from investment $2,449,546 less depreciation of $450,000?—A. Yes.

Q. Bond interest $528,038. Do you remember that statement?—A. You are quoting from that book now?

Q. Now, I will go on. Earnings per share and dividend record. Have you got that record?—A. No, I have not.

Q. Do you recall those figures under that heading, "Earnings per share and dividend record, preferred earned, $14.89?"—A. Are you quoting, please, from the January 31st, 1931 book?

Q. I am quoting from January 31st, 1931.—A. Yes.

Q. Can you follow that?—A. Yes, I have that.

Q. "Earnings per share and dividend record, preferred earned, $14.89." Is that right?—A. I presume it is,

Q. "Paid." I presume that is by way of dividends, "$6." Is that right?—A. That is the dividend.

Q. "Common earned, $1.43?"—A. Yes.

Q. "Paid, $0.60."—A. Yes.

Q. "Times bond interest earned, before depreciation and after bank interest, $4.62." Is that right?—A. Are you quoting those figures from one of the published pamphlets?—A. I have not that information before me.

Q. This is what purports to be a part of your annual statement of January 31, 1931.—A. An analysis of the annual statement.

Q. Yes. "After depreciation and bank interest, $3.76." Is that correct?—A. I say I presume it is, because I am unable at the moment to check those figures to see whether they are correct or not.

Q. Now, there is another thing in connection with this statement. After deducting unpaid subscriptions, due by employees, amounting to $132,432 in 1931, $182,939 in 1930, $614,249 in 1929—that is just explanatory of figures that are given above that—you say "unpaid subscriptions due by employees." Do you know how many employees are shareholders in the McColl-Frontenac?—A. No, I don't know.

Q. Are employees of the McColl-Frontenac required to subscribe for stock? —A. No.

Q. Does your application form for employment at the McColl-Frontenac contain a clause in which the employee agrees to subscribe for stock?—A. No.

Q. It does not?—A. No.

Q. Have you one of your application forms here?—A. No.

Q. Do you use application forms?—A. We do, yes.

Q. I would like to have one of those application forms, when you give us this other information.—A. I will bring it.

Q. Just one other question in connection with the four share bonus with the ten share preferred. Mr. Irwin gave us approximately the number of common shares that were issued, and he said that these were issued by the brokers who handled the sale of this stock. That is the way I understood it.

The CHAIRMAN: Offered by the brokers?

By Mr. Bothwell:

Q. Did these brokers that you speak of offer this to the public, or was a part of it handled simply by the McColl-Frontenac themselves?

Mr. IRWIN: It was all offered by the brokers.

By Mr. Bothwell:

Q. Did all subscribers for at least ten shares of preferred stock get that four shares of common?

Mr. IRWIN: Every one.

By Mr. Hanson:

Q. How are those bonus shares alloted by the brokers to give away. What was the consideration, if any?—A. These shares, the bonus shares that you speak about, were sold by McColl-Frontenac at $17.75 to the brokers. If they gave this as a bonus with the preferred stock, the company received value for them.

By Hon. Mr. Ralston:

Q. The brokers sold, no doubt, on a sufficient spread to enable them to give away four shares of common with every ten shares of preferred.—A. I presume so.

Mr. HANSON: I should like to have that elucidated. They paid par for the common shares?

Mr. GEOFFRION: May I explain that?

The WITNESS: They paid par for the preferred shares, $100.

Mr. IRWIN: May I explain that?—A. At the time this issue was made, things were bubbling a darn sight better than they are now, and they paid us par for the preferred, and for the common, about $17.75. The McColl-stock was selling shortly after at $25, $30, $35. Undoubtedly that is where the brokers made their money, the difference between $17.75 they paid us, and what they sold it at.

By Hon. Mr. Euler:

Q. They underwrote everything, preferred and common?

Mr. IRWIN: Everything, and paid us cash for it.

By Hon. Mr. Euler:

Q. What is the total amount you got?—A. They paid $8,890,000 for the common; $8,205,300 for the preferred, and $9,780,000 for the bonds.

By Hon. Mr. Ralston:

Q. What was the date of the issue?—A. January, 1928.

By Mr. Willis:

Q. How many shares of each kind?—A. 500,000 shares of common, and 82,053 preferred.

By the Chairman:

Q. There were 82,053 preferred?—A. Yes, 82,053.

By Mr. Baker:

Q. Has the McColl-Frontenac continued to pay dividends up to the present time?—A. Yes.

Q. At the same rate, 15 cents per quarter?—A. Sixty cents a year on the common stock.

Q. Your assets have increased from $20,946,131 in 1929 to $31,287,761.03 in 1931.

Mr. IRWIN: May I answer that, Mr. Chairman.

Mr. GEOFFRION: I take it Mr. Irwin will have a chance to take up these matters at another meeting?

The CHAIRMAN: I was going to suggest that since certain information has been asked for from the present witness, and to which he has agreed, and which he says he can get and bring at another meeting, and since we have not been able to hear Mr. Irwin on this question of costs, that we defer this meeting until Thursday, and ask the Imperial Oil, who were to come on Thursday, not to come until another day we might fix, so that we might hear this question elucidated and hear Mr. Irwin. Is that agreeable?

Mr. HEPBURN: It is agreeable.

Mr. GEOFFRION: I take it at the next meeting, as far as the McColl-Frontenac company is concerned, it will be a matter of having Mr. Irwin tell you more completely about the costs, and give you this information which has been asked to-day. Would it be convenient to have Mr. Irwin at a later date? He is the one who can answer nine-tenths of your questions. Mr. Irwin really cannot talk to-day and I very much doubt if he will be able to answer questions on Thursday. I think it would be better if you would give him a little longer time.

Hon. Mr. RALSTON: I think it sounds reasonable. It is not likely that his voice will be much improved in two days.

The CHAIRMAN: All right. Suppose we go on with the Imperial Oil on Thursday. We will call Mr. Brooks at a later date. I expect that Thursday and Friday will be taken up with the Imperial Oil, and I think probably Tuesday will be all right for Mr. Irwin.

Hon. Mr. RALSTON: Do I understand there is an accountant attached to the committee?

The CHAIRMAN: Yes.

Hon. Mr. RALSTON: Has he been assigned to any duties?

The CHAIRMAN: He is not here to-day, but he will be given those figures.

Hon. Mr. RALSTON: My suggestion is this: I believe it would save the time of the committee and these gentlemen who are all busy, if a little sub-committee were formed who could talk to the accountant and tell the accountant just what the committee would like brought out. The accountant could go and see Mr. Brooks and Mr. Irwin, and get information from them, and report to the sub-committee, and they could report to us and instruct us as to any information which we want to get. I think we would save a lot of time.

The CHAIRMAN: That is a very good suggestion. Is it agreeable to the committee?

Hon. Mr. RALSTON: I am sure that an accountant, going through these books, could get a statement about the things we have been asking this morning, in regard to the amount of money that went into the company for stock; with regard to the money paid out to subsidiaries, and so forth. I am sure an accountant would be able to get those items that Mr. Hanson has submitted for administration and depreciation, and so forth. An accountant could get those things in a moment. We could get along very much more expeditiously if we had our accountant examine the officers of the company and the books of the company, and report to a sub-committee.

The CHAIRMAN: The clerk says that we could do that now. We could not do it before the companies were formally brought before the committee. We have an accountant at the disposal of the committee for this purpose, and that is our intention. I think it will save a great deal of time of everybody if we employ the method suggested by Col. Ralston.

Mr. BAKER: We would also have our accountant confer with the witness, and confirm his findings.

Hon. Mr. RALSTON: I would make a motion that a sub-committe be appointed.

The CHAIRMAN: We have a committee consisting of Dr. Donnelly, Mr. Hanson and the chairman.

Hon. Mr. RALSTON: May I make a motion that the committee be requested to consult with the accountant and instruct the accountant as to such inquiries that they consider should be made from any other companies who are connected with this inquiry.

The CHAIRMAN: What is your pleasure? Carried.

Meeting adjourned.

SESSION 1932

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

THURSDAY, MARCH 17, 1932

No. 3

Reference,—Price of Gasolene

WITNESSES:

Victor Ross, Vice-President, Imperial Oil Co., Ltd.; L. C. McCloskey, Director of Manufacturing, Imperial Oil, Ltd.

Appendix,—Statements Filed by Witnesses

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1932

MINUTES OF PROCEEDINGS

House of Commons,
Thursday, March 17, 1932.

The meeting came to order at 10.30 o'clock a.m., Mr. Matthews presiding.

Members present: Messrs. Arthurs, Baker, Beynon, Bothwell, Donnelly, Gagnon, Hanson, Matthews, McPhee, Peck, Perley, Pettit, Sanderson, Smoke, Stanley, Spencer, Vallance.

The committee again took under consideration the enquiry into the cost of gasoline to the Canadian consumer.

The chairman informed the meeting that the committee auditor was conducting an audit of the books of the McColl-Frontenac Oil Company.

Mr. Victor Ross, Vice-President of Imperial Oil Limited, was called and his examination started at a previous meeting, was resumed.

The witness produced and filed certain statements from the records of the company, requested at his previous examination. (*See Appendix hereto.*)

Mr. L. C. McCloskey, Director of Manufacturing, Imperial Oil, Ltd., was called, sworn and examined.

The witness filed several statements prepared from the books and records of the company. (*See Appendix hereto.*)

The committee adjourned till Friday, March 18th, at 10.30 a.m.

A. A. FRASER,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
THURSDAY, March 17, 1932.

The Select Standing Committee on Banking and Commerce met at 10.30 o'clock; Mr. Matthews presiding.

The CHAIRMAN: At the last meeting of this committee, certain information was requested from the McColl-Frontenac Company. Your sub-committee had a conference with your auditor yesterday, and instructed him to proceed to Montreal for the purpose of taking the required figures from the books of the company. The auditor's figures will be submitted at a later meeting.

To-day, we resume examination of witnesses of the Imperial Oil. The first witness will be Mr. Victor Ross, who has some submissions to make to the committee.

Mr. Ross.

Mr. VICTOR ROSS, recalled.

At the last meeting which I attended, there were several questions asked of me, and Mr. Fraser, the clerk, was good enough to make the passages. I think I have all of that material to-day. At page 17 of the Evidence, Mr. Hepburn asked me to file a list of the subsidiary companies, and subsequently Mr. Donnelly asked for this information also, and for the amount of the paid up capital. I have here a list of the subsidiaries, twelve, I think. I will read them. Imperial Oil Refineries, that is our operating company which operates the refineries. It has a capital of $1,000,000; Imperial Pipe Line Co., Ltd., to which I referred in my last hearing, has a capital of $1,000,000; Queen City Oil Company, Ltd., which we took over some time ago, has a capital of $25,000; Transit Company, Ltd., $500,000; Transit and Storage Company, $1,000,000; Ioco Townsite Ltd., $300,000.

By Mr. Bothwell:

Q. Ioco Townsite?—A. That is a model town that we have at Vancouver. Royalite Oil Company, Ltd., which operates the Turner Valley, $4,000,000; Foothills Oil and Gas Company, $5,000,000; Northwest Company, Ltd., $500,000; Dalhousie Oil Company, Ltd., $3,000,000, and the International Petroleum Company, Ltd. It has 200,000 of preference stock outstanding, 39,800,000 shares of common authorized—beg your pardon, 14,324,000 shares of common stock.

By Mr. Spencer:

Q. May I ask what the Northwest Company is?—A. The Northwest Company operates Turner Valley. There are two or three of them. It was the original company out there. It was the company that conducted the search for oil.

By Mr. Donnelly:

Q. Have you a separate company that does your drilling in South America? —A. The International Petroleum Company, sir.

Q. That is it?—A. Yes, and they sell crude—that will be shown by Mr. McCloskey—they sell crude to various other people, principally abroad. The price which these other companies pay, is the price that the Imperial pays. That will be elaborated, I think, by Mr. McCloskey. While I was not asked that question, I was not asked to bring out this information, but I think it is only fair to the committee to say that at the last meeting, when I stated that our labour costs were higher in Canada, I really did mean our manufacturing costs. While I have no doubt that the cost of labour in the mid continent field is lower than our own, I find we are just about on a par with the United States refineries, with the refineries at export points in the south.

Q. You mean in the labour cost?—A. I mean in the labour cost, yes. The average price of labour or wages of stillsmen in our seven refineries is $85\frac{1}{2}$ cents. The average price of the Baytown, Texas and Baton Rouge Louisiana, is 90 cents; still firemen, our average is $67\frac{3}{4}$ cents, and theirs is $68\frac{3}{4}$ cents; ordinary labour in our plant, 51 cents an hour, and at those other points, 38 cents an hour. The average is 68·08 cents in our plant—

By Mr. Bothwell:

Q. That is the average wages. You say the average wage for ordinary labour in your plant is 51 cents, and theirs 38?—A. It is 68·08 in our plants, and 65·58 in those other plants.

Q. Does that include salaries in both cases, or wages?—A. That is wages, not salaries.

By Mr. Donnelly:

Q. Of this amount you might have a lot of ordinary men and a few still men. What is the proportion, do you know?—A. Well, they run the same, largely, in all refineries.

Q. If you took on the average 100 ordinary men and only one still man, your wages would average up?—A. I have given you the average for the stillsmen and the average for common labour.

Q. How many stillsmen would you have as compared with common labour? —A. About 50-50.

Mr. McCloskey: That would be what we call process men, which would include stillsmen and still firemen.

Q. Just about the same as the number of ordinary men?—A. Yes.

Q. If you took them together, it would give about the same as ordinary men?—A. Yes. You did not ask me for this information. I have attempted to give you a fair picture. We say in a note here that we feel it is a reasonable assumption that the total labour rates would approximate about the same average in both plants. Then, we were asked as to the capital structure, and I have here a memorandum which covers the period of fifty years. We are a little older than that. I shall read this to you.

The company was incorporated in 1880, fifty years ago, with a paid up capital of 5,000 shares of the par value of $100 each.

Mr. Bothwell: Mr. Chairman, I do not know that it is necessary to read that whole statement. At page 20 of the report of the proceedings, Mr. Ralston asked this question: "Mr. Ross, in the first place, would you file with the committee a statement showing the capital structure changes"?—A. Yes, I will do that.

Q. In the company, say, from 1910, if you like, whatever period would make or would give the committee a fair history of the structural changes in the company?—A. Yes, I will give you that.

Q. Showing the amount of capital issued, and the "various bonuses and the various splits, and the amount of actual cash paid into the company"?—A. Yes.

And so on. Now, if you have a statement of that kind that can be filed,—A. I can file it. This is a statement showing that over a period of years more capital has gone into the company than stock has been issued for it.

Q. Because, having a statement of that kind read to us, without a copy of it before us, makes it pretty difficult for us to digest it and ask intelligent questions.—A. Whichever you think, Mr. Bothwell. I thought I had an extra copy or two, but I have not.

By the Chairman:

Q. Are there any comments that you would like to make?—A. Well, there is no comment. It is a pretty exhaustive statement.

By Mr. Spencer:

Q. Can you give us the total amount of paid up capital, the amount of money paid into the company?—A. That is this statement.

Q. You have not got it in round figures?—A. There has been—

Mr. BOTHWELL: Possibly it might be just as well to have it read. There are only three pages to it.

The company was incorporated in 1880—fifty years ago, with a paid-up capital of five thousand shares of the par value of $100 each. Shares have been issued from time to time generally speaking, as the company required capital. In this period of fifty years, i.e., up to December 1930, except in the case of two stock dividends, one in 1907 and one in 1915, all stock issued was sold at par or higher for cash or other value received, such as shares in companies acquired and since 1898 the stock so sold and issued, was sold not at par but at a heavy premium or advance over its par value except in two instances, one in 1912 and one in 1917 when it was sold at par.

The capital so paid in on the par value was. . . .	$34,174,401
The capital paid in as premium was.	29,920,129
	$64,094,530

The amount at par of the two stock dividends was $14,000,000, so that the shareholders may be said to have received less stock than they had paid for at par to the extent of $15,920,129 par value. In this fifty-year period the profits set aside as reserve have amounted only to $75,163,998. These reserves have been reinvested in the business.

The following is a year by year history of the capital structure changes beginning with 1912. From 1915 onwards, that is for fifteen years. wherever a capital structure change is referred to below a reference is made to the dividend which is given in a percentage of the capital and reserves, i.e., the investment in the business in that year.

In 1912 the capital issued and outstanding was forty thousand shares of the par value of $100 and in that year eleven hundred shares were issued at par and a further eighteen thousand nine hundred shares were issued at $167 per share, or a premium of $67 per share. In 1913 forty thousand shares of $100 par value were issued at $160 per share or a premium of $60 per share. In 1914 ten thousand shares were issued at $200 per share or a premium of $100 per share. In 1915 a stock dividend of one hundred and ten thousand shares was issued.

By Mr. Bothwell:

Q. One hundred per cent stock dividend?—A. One hundred per cent stock dividend. In 1915 nine thousand six hundred and twenty-five shares were issued at $120 per share or a premium of $20 per share; the dividend ratio in this year was 4·12 per cent. In 1916 twenty thousand three hundred and seventy-five shares were issued at $120 per share, a premium of $20 per share; the dividend ratio was 5·1 per cent. In 1917 fifty thousand shares were issued at par; the dividend ratio was 4·41 per cent. In 1919 to obtain a better distribution of stock the par value of the shares was reduced, the shareholders receiving four $25 par value shares for each $100 par value share then held. This did not constitute any writing up of the capital or reserves of the company; the dividend ration in this year was 7·11 per cent.

By Mr. Pettit:

Q. That was on par value; the dividend was on par value?—A. No, sir. The dividend was on the money that was paid in as premiums. That is, the ratio of the dividend to the money paid in as premiums and the money paid in at par for stock. That is true in every case.

By Mr. Hanson:

Q. On the actual cash paid in?—A. Yes, the actual cash in the company representing subscriptions for stock and premiums for that year. In 1920 two hundred and nine thousand two hundred and thirty-one shares of the par value of $25 each were sold for $75 each, a premium of $50 per share; and one thousand and ten shares of the par value of $25 each were sold for $100 each, a premium of $75 per share; the dividend ratio was 8·07 per cent. In 1921 one hundred and fifty-eight thousand six hundred and sixty-nine shares of the par value of $25 each were sold for $89 each, a premium of $64 per share; the dividend ratio was 4·60 per cent. In 1922, 1923, and 1924 the stock issued by the company consisted of stock issued to employees in pursuance of the Employees Co-operative Investment Trust. That is a trust by which over a period of years our employees in all ranks have been accumulating our stock. All of these sales were made at a substantial premium. In 1924 the shares were changed to no par value shares, four shares of no par value being issued for one par value share, there being, however, no increase in capital or reserve by reason of such change in the nature of the shares; the dividend ratio was 5·03 per cent. From 1924 to 1928 no shares were issued except to employees. In 1928 the existing stock was subdivided, each share being divided into four. The same remarks apply as above, namely, that the capital and reserve attributable to such shares was not in any way changed; the dividend ratio was 7·76 per cent. In 1929 and 1930 no sales were made except to employees. That is, the issue of the four for one did not increase the capital structure.

To summarize, total shares issued at the end of 1930, 26,557,497 no par value.

Capital paid in by shareholders, par value.......	$34,174,401
Capital stock premium paid in by shareholders..	29,920,129
Total..................................	$64,094,530

Shares declared as stock dividends, fourteen million dollars at par. This means against a premium paid in for which no shares were issued, of $29,920,129 as above stated, the shareholders received only $14,000,000 at par of stock. Accumulation of undistributed profits transferred to reserve and invested in the business during the period of fifty years $75,163,998, or approximately $1,500,000 a year. The average of the dividend ratios over the whole period 1912 to 1930 is 7·1 per cent.

By Mr. Hanson:

Q. What is that last statement, Mr. Ross?—A. The last statement? The average of the dividend ratios over the whole period 1912 to 1930 is 7·1 per cent. I do not think I can amplify that in any way, gentlemen.

Q. Does that mean cash dividend ratio or include stock dividends as well?—A. What it means, is that the dividend (—well, if we earned one hundred dollars—) if we had $50 in the company in capital paid-up and $50 in premiums and we paid $4, that would be four per cent.

By Mr. Bothwell:

Q. Going back to your original incorporation, at what price was your stock sold?—A. Paid-up capital, 5,000 shares, par value $100 each.

Q. Was it sold at $100 each?—A. Yes.

Q. The original shareholders in the company were not required to pay anything else into the company?—A. Well, they bought 5,000 shares.

Q. At one hundred each?—A. Yes.

Q. Supposing you followed that stock all the way through without going to the public at all— —A. Yes.

Q. Those original investors have received stock dividends at no cost to themselves?—A. Yes, if they are the original. I doubt if they are.

Q. If that were followed through?—A. Yes. They got $14,000,000 worth of stock for which they paid $29,000,000.

Q. These originals might not have paid fourteen million, because you had shareholders coming in at various times?—A. Yes.

Q. Through your different offerings?—A. Yes.

Q. So the original shareholders, supposing you followed that stock right through, from the incorporation of the company down to the present time— —A. Yes.

Q. —would be required to pay no more money in, and for one share that they owned at that time, they would now hold one hundred and twenty-eight in the company; is not that correct?—A. If they did not take advantage of the—

Q. And buy extra stock?—A. That is conceivable. I don't know whether one hundred and twenty-eight—

Q. You don't know whether one hundred and twenty-eight is right?—A. No.

Q. Well, I think we can compute it very easily. You had a stock dividend of 100 per cent paid in 1915.—A. That is all in this statement.

Q. We can compute that, in any event.—A. Yes, sir.

Q. Then, as far as you can say, my statement is correct, if we have taken into consideration the correct number of splits or divisions of stock?—A. Yes, that is correct, supposing anybody had that vision fifty years ago.

Q. Now, you say between 1924 and 1928, the only stock that was issued, was issued to employees of the company?—A. Yes.

Q. You are still issuing stock to employees of the company, are you not? —A. Not at the moment.

Q. Well, employees of the company are continually paying for stock in the company?—A. They are not paying now.

Q. They are not paying now?—A. No; the last trust expired December, 1931; but they have been over a period of years.

Q. Well, I understand, Mr. Ross, that there is a deduction made from employees of your company, the Imperial Oil, for payment of stock?—A. You may call it a deduction; it is a voluntary contribution, some do it, and some do not.

Q. Have you one of your application forms for employment with the Imperial Oil here?—A. For employment?

Q. Yes.—A. Giving the man's age, and that sort of thing?

Q. Yes. One of your blank forms.—A. No sir, I have not. I can have one here to-morrow. We have a form for Canadian service, and a form for foreign service.

Q. The statement has been made that applicants for employment with the Imperial Oil are required to subscribe for stock in the Imperial Oil.—A. That is absolutely wrong sir, absolutely wrong.

Q. Is there a clause to that effect contained in the application form?—A. There is no mention of that. After a man is employed it is entirely voluntary. He can leave if he wishes. Owing to the stress of times in the last year, hundreds of them have deserted the trust, and hundreds of them have remained.

By Mr. Hanson:

Q. What Mr. Bothwell means is, was the condition precedent to obtaining employment the agreeing to take stock?—A. Absolutely no relation with it.

Mr. HANSON: That is what you want, Mr. Bothwell?

Mr. BOTHWELL: Yes.

By Mr. Bothwell:

Q. A statement has been made to that effect.—A. It is a benefit which is conferred upon the employee. And as a mater of fact, Mr. Bothwell, if I joined the Imperial Oil to-morrow and there was an investment trust in progress, I would have to work for a year and satisfy my foreman I was a good workman before I could get in the trust.

Q. I wanted to know if that was a condition precedent.—A. The only condition relating to the trust is that a man must work for us for a year and be a good workman, and then he gets into the trust as a privilege.

Q. In the list of subsidiaries that you gave us to-day, there is no mention of Domestic Service. Is that a subsidiary of Imperial Oil?—A. It is not. Domestic Storage, I don't think—

Q. Domestic Storage and Forwarding Company?—A. Yes, something like that. We took it over the other day. It is a small thing. I suppose it should have been in this list, but probably what they did was to make this list out as of December 31. We bought the Domestic Storage. It was announced in the newspapers before negotiations were complete.

Q. It is simply a distributor?—A. Yes. It has a chain of service stations in Toronto, and some outside in Ontario. It is a local concern. We put our signs up one morning, the morning we bought it. There was no subterfuge at all.

Q. The other day, Mr. Ross, when you were here, you told us that sixty per cent of your profits came from outside of Canada?—A. No. sir.

Q. About sixty per cent.—A. No, sir. I said sixty per cent of our dividends represent foreign profits.

Q. Sixty per cent of dividends?—A. Represent foreign profits.

Q. Represent foreign profits?—A. Yes.

Q. Can you tell us this morning what is your investment outside of Canada as compared with your investment in Canada?—A. I cannot tell you that this morning. I think our investment is larger outside of Canada. I am not sure of that, but as I said before, it is perfectly easy for a chartered accountant of this committee to find it out in a few minutes in Toronto.

Q. In your annual statement for the year ending December 31, 1930, you show an operating income of $11,453,765, other income $9,105,839. What is included in that item "other income"?—A. The other income would be dividends from foreign companies.

Q. Dividends from foreign companies?—A. Yes.

Q. What do you mean by foreign companies, International Petroleum?—A. The largest is the International.

Q. The International?—A. Yes, sir.

Q. In your subsidiaries outside Canada?—A. Yes, in operations outside Canada, in investments outside Canada.

By Mr. Hanson:

Q. It would include dividends from any investment?—A. Any foreign investment, I suppose. That amount is nine millions is it?

By Mr. Bothwell:

Q. Other income, you state, $9,105,839?—A. Of course, eight million dollars of that comes from International alone?

Q. From International?—A. Yes.

Q. That other income appears to have increased considerably in the last few years. In 1928, for instance, it was apparently $4,600,000. In 1929, $7,593,000 odd; 1930, $9,105,000 odd?—A. Yes. Well, for many years we were spending a lot of money in South America. In the last few years it is just beginning to come back.

Q. That was on International Petroleum?—A. Yes. International Petroleum has been steadily increasing the dividend. I have some other things here which I was asked for, Mr. Bothwell. Col. Ralston asked me what representations were made to the government in respect to whatever application there was for an increase in duty. I was aware, as I told you, it was in 1930, and continued in the early part of 1931, when those representations were made. What Mr. Ralston said was this:—

> As a matter of fact, you did, I have no doubt, present to the government a statement of your costs in order to demonstrate to the government that there should be an increase in duty.

I have got a memorandum here in which I say, for a considerable period of years, the duty on gasoline was 2½ cents per gallon, the same as it is to-day. This duty was the creation of Mr. Fielding, who later in consideration, as he said, of the needs of the fishermen, reduced it to one cent per gallon. Under the 2½ cent duty of Mr. Fielding, there was, as there is now, a considerable amount of gasoline coming in duty free. Under the previous government, there was a tariff of one cent per gallon on a portion of the gasoline imported into Canada. The tariff board, on its own initiative, began an inquiry into the gasoline situation and we, at the request of that board, submitted a brief, the original copy of which I have here, and which I file.

That was in the spring of 1928. There was no change in the tariff, although we were given to understand that it would be increased. We were not then in the position actually of petitioning for an increase in the duties, but our industry was subject to review by the tariff board and our brief was in compliance with the board's request.

My understanding was that our brief established a case for tariff protection but because of considerations, other than those bearing upon the merits of the case, there was no change.

When a revision of the tariff was under consideration by the present government in the fall of 1930, we, and I believe all of the refining companies, made representations; in our case they were based on a memo dated August 28, 1930, which refers to the brief mentioned above and which was represented without other written comment. Our written recommendations are contained in a letter, which I have here. The next communication was in the form of a joint undertaking upon the part of the principal refining companies in Canada that, in the event of an increased tariff on gasoline, these companies pledged themselves not to take advantage of such increase in duty to increase the price to the retail consumer and a copy of that undertaking I also have here.

Subsequently, we made further representations to the government in support of an increased tariff on lubricating oils and asphalt, but without result; that is, the government did not act upon our recommendations. We presented that. I have this application here.

By Mr. Spencer:

Q. Was the application a very long one?—A. Yes, it is very long. That is, in regard to the tariff?

Q. The application you made for increased protection.—A. Well, it is about seven pages.

By Mr. Donnelly:

Q. You will file it?

By Mr. Spencer:

Q. Can you give us the main points?—A. It would be quite difficult for me to do it here. It simply recites, I suppose, the usual protectionist's arguments.

By Mr. Hanson:

Q. Your company kept that pledge?—A. Yes, sir.

Q. You are prepared to substantiate that?—A. Mr. McCloskey will do that.

By the Chairman:

Q. You will file that with the clerk?—A. Yes.

The next item is a question of Mr. Ralston's appearing on page 22 of the Evidence. Mr. Ralston asked as to the correspondence with the department relating to dumping duties, and I have here a petition dated October 17th, 1930, to the Honourable Acting Minister of National Revenue at Ottawa, requesting that valuations be established in respect to the dumping of Pennsylvania gasoline into Canada.

By Mr. Hanson:

Q. That is very interesting. You made that on your own volition, the request to the Acting Minister?—A. The request?

Q. Yes.—A. Yes, sir.

Q. Because of conditions which had arisen?—A. Yes.

Q. Now, what were the conditions that had arisen which impelled you to make that request?—A. It was the demoralization of the gasoline industry in the United States.

Q. That is a general statement. Are you prepared to give to the Committee the benefit of your information with respect to what the exact demoralization was, and the necessity of your doing something, from your own standpoint, of course?

Mr. DONNELLY: I presume that letter would state that.

Mr. HANSON: Maybe it will.

Mr. BOTHWELL: We have not read the letter.

The CHAIRMAN: It is pretty long.

The WITNESS: On behalf of the undersigned petroleum manufacturers in Canada, we submit for your consideration, evidence that gasoline is being dumped into Canada in contravention of the dumping clauses, of the Customs Act, as revised by Bill No. 3, an Act to amend the Customs Act, passed in the first session of the seventeenth parliament, 21 George V, 1930.

Mr. HANSON: That is the beginning of it.

By Mr. Sanderson:

Q. Was that a brief for all the gasoline producers?—A. Yes; because the first line says "on behalf of the undersigned petroleum manufacturers in Canada."

By Mr. Bothwell:

Q. You will file that with the Committee?—A. Yes, that is what I brought it for.

By the Chairman:

Q. Have you another item, Mr. Ross?—A. I think I have something here. I think those are all the questions, unless some member can think of another one. But I did bring down with me, and I would like Mr. McCloskey to give evidence later on in respect to the reasons that protection was invoked on dumping.

Mr. HANSON: That is very important, I think. My learned friends object to that, you know.

The WITNESS: I don't see why you should differentiate. Well now, I am not going to read this at length, but I should like to put it before the Committee in fairness to show the extent to which that demoralization—

Mr. HANSON: That is exactly what I would like to have.

The WITNESS: The extent to which it has gone in the United States. And I will read this. This was furnished by Standard Statistics, a very responsible organization in Canada, and the United States, which makes a business of analysing the reports of corporations, the shares of which are traded in on the stock exchange. It shows, for instance, the Atlantic Refining Company, in the year 1929 made $17,332,418, and that was not an excessive sum.

By the Chairman:

Q. That is a large company?—A. Yes. That represented $6 earned on the stock.

By Mr. Donnelly:

Q. Have they their own wells?—A. Well, the Atlantic Refining Company, I think it has some wells, but is largely a refining company.

By Mr. Arthurs:

Q. Have you the value of the stock, or is it no par?—A. I have not the value of the stock, but it earned $6.20 for each share of common.

Q. A good deal depends on the price of the shares?—A. Well, they were a good deal higher then than now. Anyway, it earned $17,332,418 in 1929. Then, the balance sheet for 1931 shows earnings of $513,750. That is, they earned $6.20 per share in 1929, and 19 cents per share in 1931. The Barnsdall Corporation, which is largely a purchasing company, made $7,205,161 in 1929, or $3.25 per share, and in 1931 they lost $3,268,637, or a deficit of $1.54 per share. The Continental Oil company earned $9,028,661 in 1929, and lost $12,045,575 in 1931. The Gulf Oil Corporation of Pennsylvania—their figures are not available for last year.

By Mr. Bothwell:

Q. Just one question there, if I may. Are those companies that you are giving us companies that operate their own wells?—A. Well, most of them are complete petroleum units, manufacture and sell as we do, not all of them. The Barnsdall Corporation does, I know.

By Mr. Hanson:

Q. The Gulf Company does?—A. The Gulf Oil Corporation does, and the Continental Oil Company does, and the Humble Oil and Refining Company does. The Humble made $32,535,081 in 1929, and $2,765,092 in 1931.

By Mr. Bothwell:

Q. The real demoralization that you spoke of took place in the production of crude oil?—A. No.

By Mr. Donnelly:

Q. Was it not a fact, Mr. Ross, that these people had a lot of crude oil and hand worth $1.25 per barrel, and it fell away to 15 and 20 cents per barrel, and they took the loss on the crude?—A. No. There is over production of gasoline as well as over production of crude, and there is as much chaos in the refining industry as there is in the production industry.

Q. Following on the over-production of crude?—A. And the purely marketing companies are feeling the same thing. The Sinclair Consolidated Oil Corporation, which is a very well managed corporation, in 1929 made $16,599,037. In the first six months of 1931, they lost $10,415,088. The Skelly Oil Company made $5,786,490 in 1929, and lost $2,987,230 in the first nine months of 1931. A reference to those sheets in regard to other companies shows the same situation. They just cut dividends and passed them. There is also a statement here showing the reduction in wages and labour of those plants.

By Mr. Spencer:

Q. What was the main reason for the loss, the cut in prices?—A. I think the main reason is the one I gave the other day, the absolute disregard by a large portion of the American Republic of the gasoline tax. It has been quite possible, and it has been done every day, to have a tank wagon buy a load of gasoline in one state the contents billed for export, cross the line to another state, pay no tax, fill up there with that state's gasoline, and drive back.

By Mr. Donnelly:

Q. That shows that the loss has been not on the refining but on the retailing? A. Not a retailer loss. There could not be a retailer loss without being transmitted right back to the refinery.

Q. You claim that the loss is not a retailer loss through the service station? —A. What happens is this. If we were in the United States and we were supplying retailers—companies like this are too big to evade tax. They would not permit tax evasion. But you take those bootleggers,—the average tax in the United States is four cents—they have four cents to play on, and they cut the price. The responsible company has to meet the cut. The responsible retailer has to meet that cut, and then he goes to the refiner and says, "I cannot pay that price for gasoline, because the price is cut in my territory."

By Mr. Stanley:

Q. You said last day that some of the refineries carried long term contracts of two years or more?—A. I do not think I said two years.

Q. Does not that account for some of the heavy losses that some of the companies are having?—A. Yes. In all these companies a lot of the losses are inventory—not altogether, but a part of it is due to inventory depreciation.

Q. That would account for very much of their losses, instead of the heavy cut?—A. Oh, yes; the fact that they are losing money and so many of them need ready cash, is the real reason; that and tax evasion, with the complete collapse of the gasoline price structure in the United States. And I would like the committee to bring a representative from the United States, a man who is conversant. There are any amount of them, and they would tell you how widespread this tax evasion is and what a material effect it has had on gasoline prices in the United States. I contend in comparing our prices with those of the Untied States that you are comparing them with an absolutely uneconomic price structure. If gasoline was selling in the United States at the corresponding price of crude, the crude would have to be at least one-third lower in price than it is now. I need not elaborate this. Here is one of our own Standard Oil group. Standard Oil Company of California in 1929 made $46,633,490, and in 1931 in the first nine months, it made $11,941,787.

By Mr. Donnelly:

Q. Let us go back to the tax evasion again. That does not affect your wholesale price of gas?—A. Yes.

Q. How does it affect the wholesale price. If you are living say, in New Jersey, and go over to the Pennsylvania refinery, you could buy from their refinery at the same price as from any other refinery. I could evade the tax if I liked, and sell it in New Jersey without any fixed price from you or any other?—A. Yes.

Q. Your wholesale price would be as high as any other?—A. I say the retailer's price—the low retail price must be transmitted into a low wholesale price. If you are selling gasoline in competition with me, and you evade the tax, you get two cents on it yourself, and give the other two cents to the customer, in a cut. Then I have to cut my price.

Q. That is what I say.—A. Then I go to my supplies and I say, you have got to reduce the wholesale price on gasoline.

Q. I say it is your service stations that are making the loss.—A. Originally the loss—

By Mr. Hanson:

Q. It works back to the refinery?—A. It works back absolutely to the refinery, and then back to the price of crude.

Q. In other words, the evasion of the tax hammers the price right down to the source.—A. Right down to the well.

Q. That condition is continuing to exist, I understand.—A. It is getting worse. The state legislatures are having a convention, I believe, to try and devise some scheme of preventing it. The American Petroleum Institute devoted a day to the discussion of some measure whereby the gas companies could cooperate with the authorities and stop evasion of taxes. The other day a man was convicted of evading the tax, and the sentence was he was not to go in the gasoline business again in all his life. Now, if a law is in that situation, that you must prevent a man from going into business, it is a pretty bad condition. I have not the slightest doubt there is a great deal of official connivance in the evasion of the tax.

By Mr. Spencer:

Q. Is there a gasoline tax to-day in all states?—A. Yes; it ranges from 4 cents to 6 cents, the average is 4 cents.

By Mr. Arthurs:

Q. On the American gallon?—A. On the American gallon.

By Mr. Bothwell:

Q. Where is it collected in most of the states, at the service stations, or through the wholesale distributors?—A. Well, such of it as is collected, is collected at the service station. In Canada, the people who actually pay the tax are much fewer in number than in the United States. When we sell gasoline to another company, a jobber, we generally collect the tax.

By Mr. Hanson:

Q. The refinery collects the tax and pays the government in Canada?—A. Well, he does not collect it all. If we sell some gasoline to the McColl-Frontenac, they collect the tax. But the government tries to keep it in the hands of the larger units, and as a result it gets the tax in this country. The Tidewater Associated Oil Company made $14,000,689 in 1929, and $175,000 in the first nine months of 1930. Here is a typical pamphlet. (Passes pamphlet around to members of committee). Now gentlemen, I am very glad to introduce to this committee, two young members of our board, Mr. McNeil and Mr. McCloskey. They are both Canadian boys, who joined our board quite recently after a lifetime with the company. We also have here Mr. Scott of the accounting department. I would just like to repeat to the committee what I said before, and that is to get the actual figures I am afraid you will have to verify and send your auditor or accountant into our business.

By Mr. Bothwell:

Q. At the last meeting of the committee, Mr. Brooks of the McColl-Frontenac, stated that the McColl-Frontenac did not estimate or fix prices except to follow the prices of the biggest distributor in the filed, the Imperial Oil.—A. Well, I think—

Q. When the Imperial Oil makes a change in the price of gasoline, is that immediately wired to the other distributors in Canada?—A. No sir.

Q. How then, do they become acquainted with your prices, or your price changes right across Canada on the same day in all oil stations?—A. That is hardly true, Mr. Bothwell. It does not actually do that. And the fact that there is a set price, and nobody sells beneath that, is one of the polite fictions of the business. The great proportion of gasoline is not sold through the service stations. It is sold to jobbers, to garages and to independent dealers of all sorts, hardware merchants.

Q. Although you supply a large number of the competitive companies with gasoline at so much per gallon below the tank wagon or sale price—

Mr. McNeil: When we change our prices, change our selling price, that automatically changes the price at which we sell to the jobber. We wire him to the effect that his price is up or down. Now, he naturally knows the reason for that. All he has to know is what our price is to him.

By Mr. Bothwell:

Q. That would hardly account for it. For instance, I will give you a statement that was made by one jobber who is running a gasoline station. He says he has been in business for five years, and has never known a change in the price of gasoline at his station but what his opponent across the street was notified the same day, acting for another company.

Mr. McNeil: The only people we notify of those changes are those with whom we do business, and their prices are affected, nobody else. It is only fair to tell him what he has to pay for gasoline. That is all we tell him.

Mr. Hanson: It soon travels, anyway.

Mr. McNeil: Yes. Naturally, the price is posted on the pump, and the man across the street can see it.

By Mr. Bothwell:

Q. Take, for instance, the price of kerosene last year. A reduction was made in June, and as I understand it, every distributor throughout Canada made the change on the same day, a reduction of five cents—I believe it was five or six cents.

The CHAIRMAN: Gentlemen, have you any further questions to ask Mr. Ross? If you have no further questions to ask, we shall hear the other witnesses. Mr. Ross, have you anything further to say?

The WITNESS: No. I was just going to explain—I think Mr. McCloskey will explain it better—that the real competition in the oil busines is with the dealer, selling to him, not selling to the individual—

Mr. BOTHWELL: That is getting into the distribution end, anyway.

The CHAIRMAN: We will leave that until we go into the costs.

The WITNESS: I would like to ask Mr. McNeil about that, because out in Victoria some dealer telegraphed to you, Mr. Chairman, or to the committee or to someone that we had refused to sell him gasoline because he cut the price—I think that incident occurred just about the same moment I was telling the committee that we did not refuse to sell to a dealer because he cut the price. As Mr. McNeil will tell you, that situation was one where a dealer had not got anything from us, was not our customer, he was a customer with a contract with the Union Oil Company of California, which operates in Vancouver and Victoria. And he cut the price. They would not sell him. They refused to sell him, and then he came around to our place and asked us to sell him. Well, for many years, I think, Mr. McNeil will tell you for ten years, we have never refused to sell a man because he cut the price, because we had the impression it was illegal. However, our men did refuse to sell him, and he was acting under this consideration, that there is a very strong association of dealers in Victoria, and if he had sold that man, that man would have been his only customer, because all the other dealers would have left him; and he, just on his own responsibility, and in fact against expressed general orders, did take the chance of keeping maybe twenty or thirty or forty dealers that he has and refusing to sell this one man; and since I left this committee last time and went back, and this matter came up at our board—it came to the ears of our counsel, Mr. Osler, and he said, "There is no reason why you should sell that man." We said we always thought it was against the law. He said, "Not at all." He said, "If you do not combine with the other companies then you can refuse to sell any man for any reason." I thought that that matter was in order, and I would mention it.

Mr. BOTHWELL: I think, Mr. Chairman, that goes into the distribution end, and I think it is only fair to explain to Mr. Ross that at the last meeting it was decided to deal with the production end of the business first, and deal with the distribution end later.

The CHAIRMAN: Who is your cost production witness?

The WITNESS: Mr. McCloskey.

LEO C. MCCLOSKEY, called and sworn.

By the Chairman:

Q. Mr. McCloskey, what is your position in the Imperial Oil Company?—A. Director of Manufacturing.

Q. How long have you been with the company?—A. Twenty-nine years.

Q. Have you a statement of cost that you can produce and leave with the Clerk of the Committee?—A. I have, sir.

The CHAIRMAN: Gentlemen, are there any questions you care to ask Mr. McCloskey?

Mr. DONNELLY: I think you had better get the statement first.

The WITNESS: Would you care to have the statement before I go into the details of the dumping?

Mr. HANSON: Yes. Have you any copies of it that you could pass around?

The WITNESS: Of the statement?

Mr. HANSON: Yes.

The WITNESS: I only have one extra copy. There are two statements, one in detail, and the other is a supplement explaining it in simple form. And if it is the pleasure of the Committee, I would be pleased to read a few items of the statement and explain it to them. It deals with the year 1930. That is the last year that our books are closed for. It shows the gross value of sales, $119,171,253.71. That represents 100 per cent. The expenses were as follows: Marketing expenses, $13,315,988.82, 11.17 per cent of the gross sales value; package expenses, $815,300.68, .68 per cent; Sales tax, $654,987, .55 per cent; taxes, marketing department, that is provincial and municipal exclusive of provincial gasoline tax, $733,302.67; .62 per cent; freight from refineries to marketing stations, $14,300,754.53, 12 per cent; contingency account, $1,188,-954.14,—1.00 per cent.

By Mr. Hanson:

Q. What is that contingency account?—A. It is an account that is set up in connection with accounts receivable.

Q. Credits?—A. Yes, sir. Manufacturing expenses, $13,600,172.01, 11.41 per cent; taxes paid by the manufacturing department, provincial and municipal, $220,471.32, .18 per cent; transportation charges, etc., on crude oils and materials consumed, $24,091,780.22, 20.22 per cent.

Q. That is, to the refinery?—A. To the refineries. Costs unaffected by fluctuations in crude oil prices,—those are the total of costs I have formerly mentioned—$68,921,711.39, 57.83 per cent; cost at point of origin of crude oils and materials consumed, $43,338,103.75, 36.37 per cent; Dominion income tax, $584,247.48, .49 per cent; total costs $112,844,062.62, 94.69 per cent. The net profit on 934,332,320 imperial gallons manufactured and sold (equivalent to .68 cents per I.G.) was $6,327,191.09, or 5.31 per cent on the total gross sales value. The net profit from sales of other miscellaneous products and merchandise, $888,100.53. I might state that that covers purchased finished oil that we market in Canada, such as Vacuum oils and such products. The total profits from refining and marketing activities, $7,215,291.62. Now, dealing with it from the standpoint of gasoline alone—

By Mr. Bothwell:

Q. The statement that you have given to us covers all products?—A. Yes.

Q. From the crude oil?—A. Yes sir, dealing with the statement from the standpoint of gasoline sold direct and indirect, that is, through jobbers and direct to the trade, I shall give you the gross sales value, and how that was made up in respect to those items in cents per gallon, and per cent of the gross sales value.

Q. Just one question there. These figures that you are giving us are figures from the Imperial refineries?—A. No, the Imperial Oil Limited, marketing and refining activities in Canada combined.

Q. You are combining the work of the Imperial Oil refineries?—A. Of the Imperial Oil Limited, yes.

By Mr. Hanson:

Q. The whole operations?—A. The whole operations.

By Mr. Ganong:

Q. Does that include the combined statements of subsidiaries?—A. This is marketing and refining. For instance, we buy material in the form of crude naphtha from the Turner valley, which is a subsidiary, and charge our refineries with it. That is not in those figures. That is shown as a separate item. I will refer to that later. Dealing with the item of gasoline, we sold direct and indirect, the figures are as follows: gross sales value per Imperial gallon, 19.69 cents, 100 per cent.

By Mr. Hanson:

Q. That was the average price over the whole of the Imperial Oil Limited? —A. Yes, sir.

By Mr. Donnelly:

Q. That takes into account your tank care or tank wagons and your service stations?—A. Yes, sir. everything. I will divide them out after for you.

Q. And the sale to wholesalers?—A. I shall deal with that in another item. Marketing expenses, 2.45 cents per Imperial gallon, 12.44 per cent of the gross value; packages .01 cents, .05 per cent; sales tax, .13 cents, .66 per cent; taxes paid by the marketing department, provincial and municipal exclusive of provincial gasoline tax, .13 cents, .66 per cent; freight, refineries to marketing stations, 2.39 cents, 12.14 per cent; contingency account, .23 cents, 1.17 per cent; manufacturing expense, 2.16 cents, 10.97 per cent; taxes paid by the manufacturing department, provincial and municipal, .04 cents, .20 per cent; transportation charges on crude oils and materials consumed, 3.95 cents. 20.06 per cent; costs uneffected by fluctuations in crude oil prices, 11.49 cents, 58.35 per cent; cost at point of origin of crude oils and materials consumed, 7.11 cents, 36.11 per cent; Dominion income tax, .08 cents, .41 per cent; total costs, 18.68 cents, 94.87 per cent; net profit, 7.01 cents, 5.13 per cent. Now, dealing with gasoline that was sold direct, that is, to dealers——

By Mr. Donnelly:

Q. In tank car lots?—A. No, to jobbers.

Q. Sold in tank wagon lots?—A. Sold in tank wagon lots or what we call specialties, sold in tank car lots, but there is no jobbing business such as sales to the McColl-Frontenac or other concerns of that kind. They are included in the previous figure. This refers only to our direct business to dealers.

By Mr. Sanderson:

Q. When you say "dealer" do you mean retailer?—A. Retailers, yes, sir. And then they add a differential to that and sell it to the consumer; but our realization is the figure that I am giving you. The price per Imperial gallon, gross value, 22.56 cents, 100 per cent; marketing expenses, 3.96 cents, 17.55 per cent; package expenses, .02 cents; .09 per cent; sales tax, .13 cents, .58 per cent; taxes paid by the marketing department, provincial and municipal exclusive of provincial gasoline tax, .22 cents, .97 per cent; freight, refineries to marketing stations, 2.45 cents, 10.86 per cent; contingency account, .37 cents, 1.64 per cent; manufacturing expense, 2.44 cents, 10.82 per cent; taxes paid by manufacturing departments, provincial and municipal, .06 cents, .26 per cent; transportation charges, etc. on crude oils and materials consumed, 3.95 cents, 17.51 per cent; costs uneffected by fluctuations in crude oil prices, 13.60 cents, 60.28 per cent; cost at point of origin of crude oil and materials consumed, 7.15 cents, 31.69 per cent; Dominion income tax, .15 cents, .67 per cent; net profit, 1.66 cents per Imperial gallon, 7.36 per cent on the gross sales value. Now, I would like to emphasize in connection with these figures that this total price paid by the gasoline consumer on direct sales, 60.28 per cent represents items uneffected by fluctuations in the prices of crude oils. Now, if we add to the 22.56 per cent the provincial road tax, which is 5 cents a gallon, and bring the total price of gasoline up to 27.56 cents a gallon it will be seen that the Imperial Oil Limited's profit amounts to 6.02 per cent on the final price paid by the consumer, including provincial road taxes.

By Mr. Hanson:

Q. Your cost per gallon of gasoline sold direct is slightly higher than on the other table?—A. Yes, they are, the reason for that is that we took the jobbing business in order to reduce our total costs, and in determining costs of gasoline we do not charge the jobbing business with items of depreciation and general administration. On the other hand we get the benefit on the jobbing business of having the regular manufacturng costs reduced.

Q. Because of the volume?—A. Because of the volume. We figure these exceptions will go on in any event.

Q. That accounts for that?—A. That is correct.

Q. There is a difference in cost of about 1·22 cents a gallon, the difference between 18·68 and 20·90?—A. That is in cents per gallon, yes. Now, I shall be pleased to answer any questions in regard to the making up of those costs.

By Mr. Bothwell:

Q. Both of those statements are filed?—A. Yes, sir, showing the details of all products.

By Mr. Hanson:

Q. That is for the year 1930?—A. Yes, sir. Our books are not closed and will not be closed for a while for 1931.

Q. They are not available?—A. They are not available.

By Mr. Bothwell:

Q. You show there in your gross sales the cost of crude at 7·11 cents and 7·15 cents?—A. Yes, sir.

Q. How do you arrive at that cost; how is it made up?—A. You mean the cost of the crude that we purchase?

Q. Yes.—A. Would you like me to outline our purchases from our Vancouver refinery at Ioco, right through to Halifax?

Q. I think it might be well for us to get that.—A. I would be very glad to do that.

By Mr. Hanson:

Q. Would we not understand it a little better if we took one refinery?

Mr. DONNELLY: Take Sarnia, for example.

Mr. HANSON: It would be simpler for me.

The WITNESS: Would you prefer me to take a refinery where we buy from our subsidiaries?

Mr. DONNELLY: Take one you buy from outside.

Mr. BOTHWELL: Take Sarnia.

The WITNESS: We buy Canadian crude at Sarnia that is produced in the Petrolia field. We are not interested in those fields in the way of production.

By Mr. Hanson:

Q. It is not your own?—A. No, sir. We buy entirely from the small producer in the Petrolia field and transport it by pipe line to Sarnia.

Q. I suppose the percentage of crude you get from that field is very small?—A. Very small. At the present time it is about 300 barrels a day out of a total charge at Sarnia of approximately 21,800.

Q. It is neglible?—A. Yes, sir.

Q. It is hardly a fair illustration.—A. We buy crude in the Illinois field, from the Ohio Oil Company.

By Mr. Bothwell:

Q. What do you pay for the purchases at Petrolia?—A. You mean the purchase price?

Q. The purchase price you paid in 1930 for that.—A. That is such a small amount I did not bring those prices with me. I can get that information.

By Mr. Donnelly:

Q. The average price you paid per barrel.—A. I will get that information.

Q. What is the size of a Canadian barrel?—A. Thirty-five Imperial gallons.

Q. When you speak of a barrel of gasoline, what do you mean?—A. Thirty-five imperial gallons.

Q. The same thing?—A. Yes, the same thing.

Q. Well now, what do you buy from Illinois?—A. We buy at the present time about 3,000 barrels per day?

By Mr. Pettit:

Q. Do you buy at the well, or at the point where it is piped?—A. We buy at the well.

Q. Piping from the well?—A. Yes, there is pipeage at the well, what is known as gathering.

By Mr. Howard:

Q. What is the average price you paid last year at the well for crude?

By Mr. Donnelly:

Q. We want to get somewhere; the average price you paid?—A. 1930?

Q. The average price you paid per barrel from month to month.—A. For 1930?

Q. 1930 and 1931. Do you know that?—A. I have not any information here. These purchases, I might say, are made up on many many entries in our books. I can get that information for you by analyzing the different crude oil accounts at the head accounting office at Sarnia, and breaking it up in whatever form you wish to have it.

By Mr. Baker:

Q. Would it not be better to have the average price throughout the year, what it cost you from time to time.

Mr. DONNELLY: Just the average.

By Mr. Baker:

Q. Just the average throughout the year, the cost of crude.

By Mr. Hanson:

Q. Would it not be better to have the year 1930?

Mr. DONNELLY: Yes.

WITNESS: No, I have not that average price here. I can get it. I have the total price, which is included in that statement. I have not the average price at each place.

By Mr. Bothwell:

Q. If we could get how you make up that figure of 7·11?—A. Yes, sir.

By Mr. Donnelly:

Q. You have the total price you say you paid for crude. Have you the total amount of crude?—A. Yes.

Q. What is the total amount of crude?—A. At Sarnia, during 1930 we ran 6,998,387 barrels of crude.

By Mr. Sanderson:

Q. Where did it come from?—A. It came from Canadian fields adjacent to Petrolia, from Illinois and from the mid-continent fields.

By Mr. Donnelly:

Q. It came in by pipe line?—A. Yes, sir.

Q. What is the total price paid for it?—A. This is delivered at the refinery, $16,162,829.60. That is an average of $2·3128 per barrel.

Q. For the year 1930?—A. Delivered, yes sir.

Q. Roughly, 35 gallons to the barrel?—A. Yes, sir. That does not agree with the total of the materials and crude oil consumed, because there are other materials in there besides crude oil.

Q. Such as what?—A. Tetra-ethyl lead and other materials that enter into lubricating oils, and various items of that kind; but you will find this figure is in balance with the other figure when you take those items into consideration.

Q. Over the year 1930?—A. Over the year 1930.

By Mr. Bothwell:

Q. Can you give us the cost of the crude alone? You have not got that figure, the laid-down price paid at your refinery for the crude alone?—A. For the crude alone? $2·3128 per barrel.

By Mr. Donnelly:

Q. What proportion of that figure is transportation?

By Mr. Hanson:

Q. The pipe lines are a public utility?—A. They are a public utility.

Q. You had a regular rate?—A. A regular rate. I have the rates here from different lines. The Illinois crude, the gathering charge in that field is 20 cents per barrel, and the pipe line rate, that is the trunk line rate, is 31½ cents per barrel to Sarnia. From the mid-continent field the gathering charge is 20 cents per barrel, the pipe line rate 62½ cents per barrel, making a total of 82½ cents per barrel. From the east Texas field, the gathering rate is 10 cents per barrel, and the pipe line rate to Sarnia 82½ cents per barrel, making a total of 92½ cents per barrel. On the Canadian crude, we pump it through our own line from Petrolia to Sarnia, a distance of 15 miles, piped up to Petrolia.

By Mr. Hanson:

Q. There is some cost attached to it?—A. Well, I would think not over about three or four cents a barrel.

By Mr. Spencer:

Q. How do the costs compare with the carrying charges to the pipe lines and carrying charges on the railway?—A. They are lower by pipe line, considerably lower. They come under the jurisdiction of the Interstate Commerce Commission.

Q. Would you explain how those pipe lines can be common carriers?—A. Can be common carriers?

Q. Yes.

Mr. HANSON: They are so declared by law.

By Mr. Spencer:

Q. Are there many different oil companies using them?—A. Numerous oil companies.

Q. Do they have to divide the pipes between them?—A. No, they do not. They have what are termed two types of pipe lines. The first type or the gathering line are small lines that start at the well, at the various wells, and they proceed from there to a central storage point where the oil is received in a main storage tank. The oil is bought by purchasing companies at the well, and the gathering charge that I have referred to, is transportation through these small lines from the well to this main storage tank in the field. Then the trunk lines pick it up at the main storage tank, and they transport it to various consignees. The procedure is to have large storage tanks probably every 50 miles or so, and it is pumped from the tank through the pipe line into the next tank and measured in there, and it is pumped out of that tank into the tank 50 miles farther on, and measured in that tank, and an account is kept of the oil from the time it leaves the well until it arrives at the final destination.

Now, there will be several companies that wish to pipe oil to a certain destination; and it is not possible for them to segregate that oil and identify it separately; so they issue tenders. You apply to a pipe line for the transport of a certain amount of oil. The pipe line tariff stipulates a certain minimum amount that can be tendered, and that amount is authorized by the Interstate Commerce Commission. Then they take the oil out of common storage and deliver it through the pipe line in 100,000 barrel lots, for instance, if it is a long distance there will be oil consigned to various refineries, and a number is placed on the particular tender that you apply for, and the deliveries are made every day in certain quantities on that tender until you receive the certain amount of crude oil that you purchase.

The usual way to purchase crude oil is to ask for a definite line allotment; that is, 10,000 barrels a day, or 5,000, or whatever your requirements are, and have the crude oil purchased by your purchasing agent, and delivered into the line at that rate, and taken out of the line at the final destination at that rate. And I might say that the amount allowed to pipe lines for transport in the form of loss between the time it leaves the well and arrives at the destination, is one per cent of the oil purchased.

By Mr. Sanderson:

Q. This crude comes in duty free, of course?—A. It does, yes.

By Mr. Bothwell:

Q. You said your cost at Sarnia has been around $2.31 per barrel?—A. Yes, sir.

Q. And you have given us the figures that total 82½ cents from the mid-continent field, with the cost per barrel to the pipe line, and other amounts which make up the 82½ cents and from the East Texas field, 92½ cents?—A. Yes, sir.

Q. What other items go in to make up the $2.31?—A. There is buying commission that is paid to the buying agent. That amounts to five cents per barrel in the mid-continent field; in the Illinois field we buy it direct from the producer, the Ohio Oil company, so there is no buying commission there.

By Mr. Pettit:

Q. The price at the final destination point is the price paid at the field for the crude oil plus the intervening charges?—A. Yes sir, that is correct.

By Mr. Bothwell:

Q. I am trying to get at—

Mr. PETTIT: Just before you come to that, is there anything extra on that?

WITNESS: There would be at the present time, an excise tax, but that would not apply in 1930.

By Mr. Pettit:

Q. What I want to know is, if there are any other charges in addition to the intervening charges included in the price at the destination?—A. There are no other charges except the receiving and handling and manufacturing charges at the refinery.

By Mr. Donnelly:

Q. How much gasoline did you produce at Sarnia in 1930?—A. The total gasoline was 51·75 per cent. That is made up of various grades of gasoline, specialties and different things such as rubber solvents, cleaning naphthas and many other grades.

Q. How much is lost in evaporation?—A. In the distilling operation, 5.99 per cent.

By Mr. Bothwell:

Q. I would like to know how that difference of 1.23 cents is made up. You say in handling charges.—A. That is the sale price of the crude?

Q. No, you say the sale price of the crude is 20 cents per barrel?—A. No, that is the gathering charge.

Q. The gathering charge?—A. Yes, that is the gathering charge.

By Mr. Hanson:

Q. From the field to the main tank?—A. Yes, sir.

By Mr. Bothwell:

Q. You cannot give us the cost at the well?—A. Well, it represents the difference, Mr. Bothwell. In the year 1930, as I say it is made up of numerous entries in our books. I would have to go back and segregate all those different grades of crude to let you have that information. I believe I know what you are trying to arrive at, the cost of gasoline.

Q. What I am trying to arrive at is the cost of the crude?—A. Yes, sir.

Q. Now, I don't mind explaining to you that I am taking the evidence given before the investigation of the United States tariff commission?—A. Yes, I am perfectly willing.

Q. And there they say that the cost at the well during the years 1927 to 1930 was $1.09 per barrel?—A. Yes.

Q. Purchasing commission, 4 cents, pipe line charges, 49 cents, tanker charges, gulf ports to Atlantic seaboard, 26½ cents, making a total of $1.88½. Now, the price of crude, of course, has gone down considerably since that, and take from all foreign countries, according to the evidence there, the cost of production and local transport, that is your covering charge, was 87 cents per barrel. I am not able to make either set of figures jibe with those you have given?—A. What was that last item, please?

Q. Eighty-seven cents. That is from all foreign countries, crude oil, mileage in the United States and the ocean tanker charge of 27 cents, making a laid-down cost of $1.15 per barrel.—A. Mr. Bothwell, you have to keep in mind this, that the value of crude oil is based entirely on what you can get out of it; and a lot of the crude oil coming in the United States is for bunker fuel purposes, such as Venezuelan crude, that has a very low naphtha content; some of it is as low as ten per cent, and it depends entirely on what is in the barrel of crude as to what you pay for it. The mid-continent crude is a very high grade of crude oil.

By Mr. Donnelly:

Q. Your return of 51 is not a high return, is it?—A. We balance our requirements in Canada by running to the per cent that would equalize the trade requirements.

Q. The returns from some of the larger fields run very much higher than that?—A. Yes.

Q. They run as high as 70 per cent.—A. This is approximately on the 36 gravity, the crude oil that I am giving you here. I shall be very pleased to divide that for you, showing what return the natural gasoline and the cracked gasoline yield was. The natural yield is 30·88 per cent, and the cracked gasoline is 20·87 per cent.

Q. You might explain to the committee what you mean by cracked gasoline?—A. The natural gasoline is the gasoline that can be taken from the crude by distilling it at atmospheric pressures. After it is taken off you have kerosene which is distilled under atmospheric pressure, also lubricating distillates, wax distillates, and numerous other distillates that the crude contains. Now, it is impossible to obtain any further quantity of gasoline from that crude under atmospheric conditions. Therefore it is necessary to resort to what we term cracking under high temperatures and high pressures, which is an expensive operation. To give you an idea of the care that has to be taken in the cracking operation, I might state that we are distilling at our refineries now, at about 960 temperature, and 1,000 pounds pressure; that is the distilling equipment in which this gas oil or wax distillate and lubricating oils is cracked, is operated under those conditions, and a part of it is converted into cracked gasoline.

Q. You just put it through two processes, what you might call the first process, and the next one the cracking. Do you put it through more than one process at Sarnia?—A. Our processes at Sarnia consist of numerous departments.

Q. You put gasoline under those two processes, or two or three processes? —A. I can explain it this way: that in cracking operations you have to step it up, as the term is, and you would start in on lower pressures.

Q. To take off gosoline?—A. To take off gasoline; that is, to minimize the losses in distillation. Then the remaining liquid has to be stepped up under higher pressures, and the gasoline taken off.

Q. How many of those processes are there?—A. I would say about four in the cracking operation.

Q. You have like five processes all the way through?—A. As far as the distilling is concerned. Now, that is the distilling of the crude, and the distilling of the oil, but in addition to those you get various cuts of distillate which must be re-run and it is a continual sifting-out process to segregate fractions of like nature and keep them together. If you would care, I would be very glad to show you the operations of the Sarnia refinery as to what is involved in the process in the manufacture of crude, which might be of interest to you.

Mr. Baker: I am too old in life to have any desire to see that.

By Mr. Pettit:

Q. I would like to ask Mr. McCloskey a question; the same one I asked before.—A. This is one of the sheets. You can see what is involved in that one. The lines represent where the products originate, and where they go.

Q. I ask you the same question I asked you before.—A. This is another. This is for one period, and this is the other, so that we arrive here (indicating on plan) and we go through all those ramifications in the sifting out process of products.

Q. I would like to ask what the price is that you pay at the well for crude material, and the price that you pay at the destination point, the difference is made up of what?—A. The difference is made up of gathering charges.

Q. What else?—A. It is just made up by buying commission, gathering charges and trunk line transportation.

Q. To the point of destination?—A. Yes.

Q. Is there anything else added on by the company at the destination point?—A. Manufacturing charges.

By Mr. Hanson:

Q. Before you come to that, do those pipe line charges take in the losses in transmission that you spoke of?—A. Yes, sir.

Q. They are charged to gathering.—A. They deliver 100 per cent of what we purchase, and the producer stands the loss, the crude oil producer stands the one per cent loss in transportation.

The CHAIRMAN: Will you continue, Mr. Pettit?

By Mr. Pettit:

Q. I am not satisfied yet. I may be very dense. What I want to get at is how the difference is made up between the price you paid for crude oil at the well and at the point of destination?—A. It is made up by buying commission, gathering charge and pipe line transportation?

Q. That is all?—A. That is all.

Q. There is nothing put on by the company besides this at the destination point?—A. No, sir.

By Mr. Hanson:

Q. As far as I am concerned, this statement begins at the wrong end. You start at the top and work back to the bottom. What I think the committee would like to have, or at least what I would like to have is the cost of your crude oil, and then add on to that the expense until it gets down to the point where you are selling, and then we will see what you sell it at, and then we will know whether you are making undue profits or not?—A. In the final analysis you just simply work from the bottom of this statement up. I have just reversed it.

By Mr. Arthurs:

Q. There is a question as to the price of the crude at the purchasing point. You explained how you buy. Do you buy in the open market or have you regular dealers with whom you deal in preference?—A. We purchase on the basis of the posted prices; that is, purchasing companies who are located in the mid-continent and other fields post a price that they will pay the producer at the well for delivery through the gathering lines to the bulk tonnage in the field.

By Mr. Hanson:

Q. It is a buyer market, not a seller's?—A. It is both.

Q. You say they fix their own prices?—A. Strictly competitive.

By Mr. Arthurs:

Q. In other words, there is more than one buying in the field?—A. Yes. I shall be pleased to give you the buying companies in the mid-continent field.

By Mr. Sanderson:

Q. Those buying companies work on a commission basis?—A. Just paying a commission of five cents a barrel. Some of them have their own production, but in addition to that they buy crude from the small producer.

By Mr. Stanley:

Q. What is the nature of your contract in connection with those purchases?—A. We have no contract; we buy on the current posted price.

By Mr. Sanderson:

Q. On long term contracts?—A. No.

By Mr. Stanley:

Q. Mr. Ross spoke about some contract the other day?—A. The principal buying companies in the mid-continent field are the Carter Oil Company, the Prairie Oil and Gas Company, the Texas Company, the Gulf Refinning Company, the Stanolind Company,—I might state that is a subsidiary of the Standard Oil Company of Indiana—and the Magnolia Petroleum Company. All those companies as a rule post the same prices and charge the same buying commission. There might be a day or so between the posting of the prices of one company and the other.

By Mr. Arthurs:

Q. Following that up, how do you arrive at the price you pay your own subsidiary, for instance, the International Petroleum?—A. Yes, I will be very glad to explain that. The crude oil sold by the International Petroleum Limited both in Peru and in Colombia is on a competitive basis with mid-continent crude. Now, the Peruvian crude oil is sold by the International to companies in the following locations, Campania, in the Argentina, S.A., to the Standard Oil Company of New Jersey; New York refineries; Tonsberg, Norway; to the Tidewater Oil Company, Bayonne, New Jersey; the Imperial Oil Refineries, Limited, Montreal and Halifax. The Colombian crude is sold to Campania, Argentina, South America; Antwerp, Belgium; Trieste, Italy; Buenos Aires, Argentina; and to the Imperial Refineries at Ioco, Montreal and Halifax. All these crudes in all instances are billed on the average posted price of the six major mid-continent producing companies that I have mentioned.

Now, in the case of the mid-continent field, the pipeage charges from the field to the gulf were—that is, the rate to tanker loading points consist of $12\frac{1}{2}$ cents gathering, and 20 cents pipeage, the West Dallas, Texas, buying commission of five cents, making the price at West Dallas $37\frac{1}{2}$ cents above the well price of the crude. If that crude is delivered to Houston, and Port Arthur, from the mid-continent field, the gathering charge is $12\frac{1}{2}$ cents, pipeage $37\frac{1}{2}$ cents, and the buying commission 5 cents.

By Mr. Spencer:

Q. Who gets the buying commission?—A. The purchasing companies I have referred to.

Q. Is that a subsidiary?—A. No, they are not subsidiaries, just independent purchasing companies. That makes the total price at Houston and Port Arthur 55 cents above the well price of the mid-continent crude.

Now, in the case of shipments from Peru and Colombia, to those points that I have mentioned, we have to transport it to the seaport, and our charge, that is the International Petroleum company's charge is 35 cents per barrel on Peruvian crude above the well price of mid-continent as compared with 37½ cents per barrel charged in the mid-continent field to get it to the loading point at the gulf at West Dallas Texas and it is 37½ cents and 55 cents to the Gulf at Houston and Port Arthur. In the case of Colombian crude, it is transferred from the field 335 miles by pipe line located adjacent to the Magdalena river. The crude is transported to Cartegena. The differential is 37 cents per barrel; over Mid-Continent crude as campared with 37½ cents in the mid-continent field, to West Dallas and 55 to Houston and Port Arthur.

By Mr. Hanson:

Q. Your prices from your subsidiaries are a little lower than from the mid-continent?—A. There is a difference. They are a little lower.

Q. Then, there is the freight?—A. Yes.

Q. From Cartegena to Halifax would not be very much different from Dallas?—A. No, sir.

Q. It would be about the same?—A. Just about the same.

Q. Practically the same from gulf ports?—A. Yes. I want to mention one other point. In addition to buying crude for our Imperial refineries from the International in Peru, we buy crude from The Lobitos Oil Fields Limited, an English concern with head offices in London, England. The International have nothing whatever to do with that crude other than look after the loading of it, and some small expenses amounting to 1½ cents per barrel on their part. It is not their production, but the production of an outside company.

By Mr. Hanson:

Q. You have no production men in Peru?—A. Yes, we have. We purchased in 1930 from the Lobitos Oil Fields Limited 1,240,457 barrels through the International Petroleum Company Limited, and purchased direct from the International Petroleum Company of their production 717,989 barrels, or a total of 1,958,446 barrels. All that crude, both Lobitos and International Petroleum was bought on the differentials that I have formerly referred to, so it will be seen that those crudes which we buy are billed on the same price to us as the International sell to all foreign countries, and as the Lobitos Oil Fields sell to us.

Q. All in all, the cost of your crude is based on the posted price in the mid-continent field?—A. Exactly. There is no advantage to us buying crude from the International at a price higher than the posted price, for the reason that of every dollar we would so pay, 45 cents of the dollar would go to minority interests, and not back to the Imperial at all.

Q. Have you included in that government royalties?—A. That is taken up as part of the production cost by the International Petroleum.

By Mr. Bothwell:

Q. Now, you say 45 cents would go— —A. We have a 55 interest, approximately.

By Mr. Donnelly:

Q. Now, take the refinery at Halifax—

By Mr. Hanson:

Q. Before you leave that, I have one question following that. What effect has the production on the posted price? I understand there is an over-production of oil?—A. Yes.

Q. If there is, the price should continually drop?—A. It did so; it dropped to 18 cents a barrel, and the governors of Oklahoma and Texas called out the militia to make them stop producing.

Q. That is one way to do it.—A. And said they would not allow them to produce any more until they had a price of a dollar. Now it is up to 77 cents again, and they have allowed them to produce.

By Mr. Donnelly:

Q. Take the refinery at Halifax. Tell us with regard to where the crude was obtained?—A. Yes, sir; for the year 1930?

Q. We would sooner have it for 1931.—A. I have not the figures for that.

Q. Give us some, any.—A. Halifax, 1930?

Q. Yes.—A. Yes, sir. The natural gasoline produced from a barrel of crude—you want yields?

Q. We want the amount of crude, and where you bought it.—A. All right, sir.

Q. Where you got your crude from?—A. We bought the crude from the International Petroleum Company in Peru; from the International Petroleum Company in Colombia, and from Venezuela, and from West Texas.

Q. Have you got the amount from each?—A. Yes, I think I can give it to you. From Peru, 1,499,576 barrels; from Colombia, 465,537; from Venezuela, 1,500,786, and from West Texas, 132,116, a total of 3,598,015.

By Mr. Hanson:

Q. Barrels?—A. Barrels. The cost of the crude was $7,080,933.80, $1·9680 per barrel delivered at the refineries. The yields from the crude, natural gasoline—

Q. $1·9680 delivered at the refinery? What was the cost of transportation? —A. It is made up of various things. I can give them to you, but it is an enormous amount of detail.

By Mr. Bothwell:

Q. I think it might be well to get some figures to show how it compares with delivery in United States points, eastern seaboard.—A. I can say this, Mr. Bothwell, the boat rates that are paid to the eastern seaboard refineries, are the same rates that we have used ourselves, and I would be pleased to outline what those rates are.

By Mr. Hanson:

Q. You have your own tankers?—A. Yes, and those tankers operate on a basis of the world's tonnage rates, that is coastwise rates, average rates quoted for foreign and American coastwise movements.

Q. Then the rates you charge are not arbitrary rates?—A. They are not arbitrary rates; we go entirely by established rates as published by brokers on tonnage transportation, and the boats take the remainder, if they lose or if there is a profit. They might have a loss; but that is the only way we can run our transportation department.

Q. How do you know when you are making a profit or losing?—A. On that system, we know whether we are making or losing.

By Mr. Bothwell:

Q. I thought we could get that from the gulf ports to Halifax?—A. Yes; I have those rates here for that year. Is there any particular month I can give you? I can give you by months—January, 1930.

Q. That is what you call tanker charges?—A. Yes, sir.

Q. That is only one element?—A. From Venezuela to Halifax, 41 cents; from Talara, Peru, to Halifax, 63 cents; the rate from Talara, Peru, to New York during the same month was 56 cents per barrel.

Q. I thought you said 63 cents?—A. Yes, sir.

By Mr. Stanley:

Q. How do you conduct your tanker service; is it a subsidiary company? —A. A separate department of the Imperial Oil, Limited.

By Mr. Hanson:

Q. It has to go through the canal?—A. Yes, it goes through the canal.

Q. Very expensive transportation?—A. Very expensive, on account of the canal tolls.

Q. And the length of the haul?—A. Yes, principally canal tolls which are very high. The International Petroleum Company Limited, as Mr. Ross states —owns it own boats.

By Mr. Donnelly:

Q. From the gulf ports?—A. I will see if I have this here. We do not transport from the gulf to our refineries—unfortunately I have not that right here, but it is in line with those rates. I will see if I can get it.

By Mr. Hanson:

Q. It should be about the same as Cartegena?—A. Yes, sir, just about the same, I would say. I have not that rate from the gulf on account of our not transporting from the gulf.

By Mr. Bothwell:

Q. For instance, the tanker charges from Venezuela to the Atlantic seaboard and the States was 25 cents per barrel in 1930. Would there be a difference of from 35 to 41 to Halifax?—A. Yes, sir.

Q. There would? There is the possibility of that difference in various times during the month?—A. Yes, sir.

By Mr. Hanson:

Q. What period are you speaking of as 20 cents, because as a matter of fact, Mr. McCloskey, the charge from Venezuela to the Atlantic seaboard, Bayonne, and from Cartegena to Halifax, should be about the same?—A. It is a little higher to Halifax.

Q. A little longer haul?—A. Yes, a little longer haul.

By Mr. Bothwell:

Q. Yes. That is what I was wondering whether there is a difference. According to the evidence given before the United States Tariff Board, the tanker charge from Venezuela to Atlantic seaboard ports is 25 cents per barrel.

Mr. HANSON: At what particular time?

Mr. BOTHWELL: I cannot tell you.

Mr. HANSON: We would have to have that.

Mr. BOTHWELL: That was the average for the year 1930.

The WITNESS: I am giving you January, 1930, now.

Mr. HANSON: You say that was the average on the whole year?

Mr. DONNELLY: Yes.

Mr. HANSON: In order to make a comparison, you would have to know what their cost was for the same period.

Mr. BOTHWELL: He is giving us January, now.

The WITNESS: Here is July, 1930, 36½ cents to Halifax.

By Mr. Bothwell:

Q. From Venezuela?—A. Yes, sir; August, 1930, 25 cents. You are getting winter rates in January. September, 22½ cents; October, 20 cents; November and December, 19 cents.

Q. It would possibly average out about the same?—A. Yes. I would say it would average exactly the same.

By Mr. Hanson:

Q. Except you say it is a little longer haul.—A. Yes. I am not allowing for the differential in the mileage; it would be about the same on a mileage basis.

By Mr. Hanson:

Q. That is what you said. It was based on the shipping quotations.

By Mr. Bothwell:

Q. What I was trying to get at was, what that differential was as between New York and Halifax. Apparently from the figures you give us, it works out to pretty near the same?—A. I will give you the rates. I have all the rates from Venezuela to New York here. I can give you the rates from Talara to New York and Halifax.

By Mr. Hanson:

Q. How do they compare; it would serve the same purpose?—A. Talara to New York, 56 cents.

Q. In a good month?—A. In January, 1930, Halifax 63, in February, 1930, to New York, 68, Halifax 72; March, New York 77½ cents, Halifax 84½ cents; April, New York 68 cents, Halifax 73; May, to New York 73, Halifax 78; June, to New York 63½ cents, Halifax 68½; July, New York 55½ cents, Halifax 60½.

Q. Are they the same?—A. Yes.

Q. Practically the same?—A. Yes, sir.

Mr. Donnelly:

Q. The price, I suppose, from Peru, Colombia, West Dallas at Halifax, would be practically the same?—A. No. The Venezuela crude would be lower. It is not as valuable a crude to start with; it is a fuel oil crude.

Q. The reason that you bring this in from Peru at the higher price is because of the better value?—A. Yes; and based on the mid-continent value; all values in Peru and Colombia are based on corresponding gravities in the mid-continent field.

Q. What is the gravity of Venezuela?—A. I would say probably it would average 14; it would run 14 to 18; that is the A.P.I. gravity.

By Mr. Bothwell:

Q. Have you got the gulf ports for any of the months?—A. No, sir. We have not purchased anything at the gulf, that is why I have not the rates.

By Mr. Hanson:

Q. You say that it would be about the same?—A. In relation to Cartegena, yes.

By Mr. Donnelly:

Q. Can you give us the amount of gasoline that you obtained in Halifax?—A. Yes, sir.

Q. Just before you leave that, you say you processed 3,598,015 barrels at a cost of $7,080,937.80, or $1·9680 per barrel. We can take it as the accepted figure at the Halifax refinery, and it works out to about 5·6 cents a gallon, crude oil. I would like to get your starting point.—A. $7,080,937.80?

Q. Yes, $1·9680 per barrel at the refinery?—A. Yes; 5·62 per Imperial gallon, yes, sir, that is correct.

Q. I would like to follow that up. I would like to find out all about it from the time it leaves the oil wells, goes to the refinery, and laid down in my car, if I can.

By Mr. Donnelly:

Q. I was asking the amount of gasoline he obtained.

By Mr. Hanson:

Q. Now, you take your barrel of crude oil at a certain specific gravity, you refine it. What does it cost you to refine it and distribute it among the different dealers that you have?—A. The cost of refining at Halifax for the year 1930?

Q. Per gallon?—A. Per gallon was 1.34 cents.

Q. It was 1.34 cents; that is, to refine it?—A. Yes, sir.

Q. Chargeable to gasoline?

By Mr. Donnelly:

Q. Is that high compared with other refineries? Is that higher than the average refinery, or about the same as the others?—A. I will give you it by refineries. Ioco, that is based on the charge of crude oil, .70 imperial gallon; Calgary, 2.14 cents per imperial gallon; Regina, 2.03 per imperial gallon; Sarnia, 2.15 per imperial gallon; Montreal, 1.55 per imperial gallon; Halifax, 1.34 cents per imperial gallon, an average of 1.61 cents per imperial gallon. The yields from crude—

By Mr. Hanson:

Q. The Halifax refinery is the most modern one you have, I suppose?—A. Not necessarily. It depends on the through put in the refinery.

Q. The larger the volume the lower the cost?—A. That is true.

By Mr. Donnelly:

Q. That is for refining a gallon of what?—A. Crude oil.

Q. Crude oil?—A. Yes, sir.

By Mr. Hanson:

Q. Is that the item that is comparable to this item of manufacturing expenses, 2·15?

By Mr. Donnelly:

Q. Have you a system of proportionate costs in the different ingredients you manufacture?—A. We have on the total refineries; we do not apportion costs to individual refineries. I might explain the reason for that. Evidently, what you are aiming at is to get the cost of a gallon of gasoline at Halifax, and the cost of a gallon of gasoline at Montreal and the other refineries. Now, the sheet that I have submitted this morning, covers all the refineries, and I will go into it in detail, explaining how the figuration is arrived at.

Mr. BOTHWELL: I think we had better continue from that, Mr. Hanson, to find out what is got out of one gallon of crude.

The WITNESS: All right.

By Mr. Hanson:

Q. You have a cost of 1·34 at the Halifax refinery?—A. Yes.

Q. What do you get out of it?—A. We get gasoline, various grades, including specialties, such as paint solvents and various grades of gasoline.

By Mr. Donnelly:

Q. What percentage do you get?—A. 31·54 per cent.

Q. Is that all you get?—A. That is all, because we had a large quantity of Venezuelan crude.

Q. Do you refine all this crude that you get from Venezuela?—A. Yes, that is all refined.

The CHAIRMAN: Gentlemen, it is one o'clock and that is the time fixed for adjournment this morning. Shall we continue to-morrow at half past ten?

Mr. HANSON: Yes. I do not see how we can sit this afternoon; there is likely to be a division in the House.

The CHAIRMAN: We have not the permission of the House to sit while the House is in session, so we will resume to-morrow morning at half past ten.

Committee adjourned until Friday, March 18th, at 10.30 a.m.

APPENDIX

CAPITAL STOCK OF IMPERIAL OIL, LTD., AND SUBSIDIARIES

Imperial Oil, Limited.		
Common Authorized	32,000,000 shares	
Issued and Outstanding	26,742,792 shares	$50,092,431 37
Imperial Oil Refineries, Ltd.		
Common Authorized	$ 1,000,000 00	
Issued and Outstanding	5,002 shares	499,500 00
The Imperial Pipe Line Co., Ltd.		
Preferred	$ 100,000 00	
Issued and Outstanding	Nil	
Common Authorized	$ 900,000 00	
Issued and Outstanding	6,800 shares	679,500 00
Queen City Oil Company, Ltd.		
Common Authorized	$ 25,000 00	
Issued and Outstanding	250 shares	24,500 00
Transit Company, Limited.		
Common Authorized	$ 500,000 00	
Issued and Outstanding	2,500 shares	249,600 00
Transit and Storage Company.		
Common Authorized	$ 1,000,000 00	
Issued and Outstanding	3,009 shares	300,000 00
Ioco Townsite, Limited.		
Common Authorized	$ 300,000 00	
Issued and Outstanding	1,000 shares	100,000 00
Royalite Oil Company, Ltd.		
Common Authorized	$ 4,000,000 00	
Issued and Outstanding	500,000 shares	3,351,584 00
Foothills Oil and Gas Co.		
Common Authorized	$ 5,000,000 00	
Issued and Outstanding	1,462,005 shares	1,245,000 00
Northwest Company, Ltd.		
Common Authorized	$ 500,000 00	
Issued and Outstanding	5,000 shares	499,700 00
Dalhousie Oil Company, Ltd.		
Common Authorized	$ 3,000,000 00	
Issued and Outstanding	3,000,000 shares Held by Royalite Oil.	567,580 43
International Petroleum Co., Ltd.		
Preference Authorized	$ 500,000 00	
Issued and Outstanding	200,000 shares	
Common Authorized	39,800,000 shares	
Issued and Outstanding	14,324,088 shares	26,403,870 00

COMPARISON OF WAGE SCALES AT BATON ROUGE AND BAYTOWN REFINERIES AS COMPARED WITH THE AVERAGE WAGE SCALE OF IMPERIAL REFINERIES

—	Average Imperial Refineries	Average Baytown, Texas and Baton Rouge, Louisiana
Stillsmen	85½	90
Still firemen	67¾	68¾
Ordinary Labour	51	38
Average	68·08	65·58

Not having a record of the percentages of various classifications of labour in the Baton Rouge and Baytown Refineries, we feel a reasonable assumption is that the total labour rates would approximate about the same average each.

IMPERIAL OIL LIMITED

MEMORANDUM *re* CAPITAL STRUCTURE—STOCK ISSUES

The Company was incorporated in 1880—fifty years ago, with a paid-up capital of five thousand shares of the par value of $100 each. Shares have been issued from time to time generally speaking, as the Company required capital. In this period of fifty years, i.e. up to December, 1930, except in the case of two stock dividends, one in 1907 and one in 1915, all stock issued was sold at par or higher for cash or other value received, such as shares in Companies acquired and since 1898 the stock so sold and issued was sold not at par but at a heavy premium or advance over its par value except in two instances, one in 1912 and one in 1917 when it was sold at par.

The capital so paid in on the par value was..	$ 34,174,401
The capital paid in as premium was..	29,920,129
	$ 64,094,530

The amount at par of the two stock dividends was $14,000,000 so that the shareholders may be said to have received less stock than they had paid for at par to the extent of $15,920,129 par value. In this fifty-year period the profits set aside as reserve have amounted only to $75,163,998. These reserves have been re-invested in the business.

The following is a year by year history of the capital structure changes beginning with 1912. From 1915 onwards, that is for fifteen years, wherever a capital structure change is referred to below a reference is made to the dividend which is given in a percentage of the capital and reserves, i.e., the investment in the business in that year.

In 1912 the capital issued and outstanding was Forty Thousand shares of the par value of $100 and in that year Eleven Hundred shares were issued at par and a further Eighteen Thousand Nine Hundred shares were issued at $167 per share, or a premium of $67 per share. In 1913 Forty Thousand shares of $100 par value were issued at $160 per share or a premium of $60 per share. In 1914 Ten Thousand shares were issued at $200 per share or a premium of $100 per share. In 1915 a stock dividend of One Hundred and Ten Thousand shares was issued. In 1915 Nine Thousand Six Hundred and Twenty-five shares were issued at $120 per share or a premium of $20 per share; the dividend ratio in this year was 4.12 per cent. In 1916 Twenty Thousand Three Hundred and Seventy-five shares were issued at $120 per share, a premium of $20 per share; the dividend ratio was 5.1 per cent. In 1917 Fifty Thousand shares were issued at par; the dividend ratio was 4.41 per cent. In 1919 to obtain a better distribution of stock the par value of the shares was reduced, the shareholders receiving four $25 par value shares for each $100 par value share then held. This did not constitute any writing up of the capital or reserves of the Company; the dividend ratio in this year was 7.11 per cent. In 1920 Two Hundred and Nine Thousand Two Hundred and Thirty-one shares of the par value of $25 each were sold for $75 each, a premium of $50 per share; and One Thousand and Ten shares of the par value of $25 each were sold for $100 each, a premium of $75 per share; the dividend ratio was 8.07 per cent. In 1921 One Hundred and Fifty-eight Thousand Six Hundred and Sixty-nine shares of the par value of $25 each were sold for $89 each, a premium of $64 per share; the dividend ratio was 4.60 per cent. In 1922, 1923 and 1924 the stock issued by the Company consisted of stock issued to employees in pursuance of the Employees Co-operative Investment Trust. All of these sales were made at a substantial premium. In 1924 the shares were changed to no par value shares, four shares of no par value being issued for one par value share, there being, however, no increase in capital or reserve by reason of such change in the nature of the shares; the dividend ratio was 5.03 per cent. From 1924 to 1928 no shares were issued except to employees. In 1928 the existing stock was sub-divided, each share being divided into four. The same remarks apply as above, namely, that the capital and reserve attributable to such shares was not in any way changed; the dividend ratio was 7.76 per cent. In 1929 and 1930 no sales were made except to employees.

To summarize, total shares issued at the end of 1930, 26,557,497 no par value.

Capital paid in by shareholders, par value.......	$34,174,401
Capital stock premium paid in by shareholders...	29,920,129
Total	$64,094,530

Shares declared as stock dividends, Fourteen Million dollars at par. This means against a premium paid in for which no shares were issued, of $29,920,129 as above stated, the shareholders received only $14,000,000 at par of stock. Accumulation of undistributed profits transferred to reserve and invested in the business during the period of fifty years $75,163,998, or approximately $1,500,000 a year. The average of the dividend ratios over the whole period 1912 to 1930 is 7.1 per cent.

The tariff items on gasoline at the present time are as follows:—

TARIFFS ON GASOLINE

Item	—	British Preferential Tariff	Intermediate Tariff	General Tariff
272	Gasoline under ·725 specific gravity at 60 degrees temperature.......... Dated November 30, 1906.	Free	Free	Free
272A	Gasoline ·725 specific gravity and heavier but not heavier than ·770 specific gravity at 60 degrees temperature; oils, coal and kerosene, distilled, known as "engine distillate," ·725 specific gravity and heavier but not heavier than ·770 specific gravity at 60 degrees temperature, per gallon...... Dated May 24, 1922.	½ ct.	¾ ct.	1 ct.
271	Oils, coal and kerosene, distilled, purified or refined petroleum, and products of petroleum, n.o.p., per gallon.......... Dated November 30, 1906.	1½ cts.	2¼ cts.	2½ cts.

Prior to May 24th, 1922, all Gasoline heavier than .725 specific gravity came in under Item 271 as products of patroleum n.o.p and subsequent to that date Item 272A applied within the ranges covered except that there are importations of relatively small body under Item 271 known as Solvent Naphthas, etc. in which the gravity may be comprehended in Items 272 and 272A.

In the Budget for the year 1922, when Item 272A was inserted in the tariff, the then Minister of Finance, the late Honourable W. S. Fielding, reduced the tariff on Gasoline .725 specific gravity and heavier but not heavier than .770 specific gravity from 2½ cents per Imperial Gallon general tariff to 1 cent per Imperial Gallon general tariff and this reduction was for the special benefit of the fishing industry.

The attached statement "Imports of Gasolines into Canada for Calendar Years from 1916 to 1929 Inclusive and the First 6 Months of 1930" contains a very interesting record and the part of it up to 1922 was the information available at the time Item 272A was added by the Finance Minister.

The situation as regards protection that the then Finance Minister had in mind has been vitiated because it could not be foreseen how the relative prices of the kinds of Gasoline in Items 272 and 272A would change.

From the statement it will be observed that until 1922 the Gasoline on the free list comprehended in Item 272 was at a differential in price per gallon over the price per gallon of Gasoline heavier then .725 specific gravity sufficient that it was not an economic competitor of the heavier Gasoline. In 1922, however, the situation changed and while the duty on the heavier Gasoline was reduced to 1c. per gallon the price differential between the dutiable and free Gasolines fell to about one half its value and since 1923 (with the exception of two years 1923 and 1925) the price of the non-dutiable Gasoline has been below that of the dutiable by values that while variable seem to be increasing, so that while the dutiable Gasoline has doubled in volume since 1922, the non-dutiable has increased in volume at the end of 1929 by five and one half times.

The figures for the first six months of 1930 show a falling off of the purchases of the non dutiable Gasoline because of prevailing economic conditions.

The practical effect of this fall in differential at the point of origin in the recognized petrolem market of the United States has been that this light Gasoline is imported largely instead of the Gasoline that pays duty.

If the duty were added to the value of the dutiable Gasoline, the minus differentials of the free Gasolines since 1923 would be magnified. This explains why the manufacturing industry in the United States has been able to nullify the protection on Gasoline because they are able to mix off the two kinds of Gasoline comprehended in the tariff items to within the specification that will meet the limits of the free item.

Based on the 1929 figures, which represent the year of maximum imports, the duty collected by the Federal Government at 1c. per gallon on 39,351,756 gallons would be $395,517.

The following table shows what the Federal revenues would be were both kinds of Gasoline to be placed on an equivalent basis under the following rates of duties.

Item	Cents per gallon duty	1929 Volumes of gasolines under 272 and 272A	Customs Collections
			$ cts.
	1½c.		2,626,656 83
	*1¾c.		3,064,432 96
272	2c.	135,558,699	3,502,209 10
272A	2½c.	39,551,756	4,377,761 38
		175,110,455	

*This value as duty protection was recommended in an economic analysis of the petroleum industry in Canada in 1927. By reference to the table of imports referred to herein, it will be seen that the differential, while variable from year to year, is persistently increasing so that the protection recommended in 1927 is undoubtedly too low.

TORONTO, ONTARIO, August 28th, 1930.

IMPORTS OF GASOLINES INTO CANADA FOR CALENDAR YEARS FROM 1916 TO 1929 INCLUSIVE AND FIRST SIX MONTHS OF 1930.

Year	Tariff Item 272, Gasoline under ·725 Specific Gravity free since 1906			Tariff Item 272A since 1922, Tariff Item 271 prior to 1922, Gasoline ·725 to ·770 Specific Gravity, Duty 1c. per Imperial Gallon since May 1922 2½c. per Gallon before May 1922			Differential in Price per Gallon that Non-Dutiable Gasoline is above Dutiable	
	Imperial Gallons	Dollar Values	Cents per Gallon	Imperial Gallons	Dollar Values	Cents per Gallon		
								c.
1916..........	18,321,891	3,624,931	19·7847	7,464,757	1,003,577	13·4442	+	6·3405
1917..........	15,369,172	3,293,760	21·4309	18,521,574	2,708,395	14·6229	+	6·8080
1918..........	3,121,982	798,387	25·5731	29,246,143	5,595,425	19·1321	+	6·4410
1919..........	4,391,607	1,142,856	26·0236	29,516,589	5,615,622	19·0253	+	6·9983
1920..........	8,515,545	2,404,488	28·2364	48·769,546	10,891,302	22·3322	+	5·9042
1921..........	21,101,146	4,665,200	22·1087	32,276,648	4,936,754	15·2951	+	6·8136
1922..........	24,743,275	5,411,972	21·8725	*18,699,143	3,638,767	19·4595	+	2·4130
1923..........	35,845,251	5,134,286	14·3235	13,927,843	1,993,596	14·3137	+	·0098
1924..........	56,389,078	7,138,561	12·6595	17,084,248	2,166,847	12·6833	—	·0238
1925..........	58,993,020	8,388,058	14·2187	24,897,661	3,204,479	12·8706	+	·3481
1926..........	60,105,404	8,670,438	14·4254	22,666,298	3,277,288	14·4589	—	·0335
1927..........	85,432,311	8,794,848	10·2945	22,503,290	2,602,949	11·5670	—	1·2725
1928..........	116,062,590	13,526,618	11·6546	27,531·961	3,278,465	11·9078	—	·2532
1929..........	135,558,699	15,096,277	11·1363	39,551,756	4,702,487	11·8894	—	·7531
1930, (1st six months).....	45,539,940	4,646,755	10·2037	21,551,441	2,608,072	12·1016	—	1·8979

* (Includes importations under 271 for the year 1922 as Gasoline n.o.p. and Products of Petroleum, n.o.p.)

Recommendation of August 30, 1930

MEMO.

The gasoline schedules in the tariff are as follows:—

Item	Description	British Preferential	Intermediate Tariff	General Tariff
271	Oils, coal and kerosene, distilled, purified or refined petroleum and products of petroleum, n.o.p. per gallon	1½ c.	2¼c.	2½c.
272	Gasoline under ·725 S.G. at 60 degrees temperature.....	Free	Free	Free
272a	Gasoline·725 S.G. and heavier but not heavier than ·770 S.G. at 60 degrees temperature, oils ,coal and kerosene, distilled, known as "Engine Distillate" ·725 S.G. and heavier but not heavier than ·770 S.G. at 60 degrees temperature, per gallon...............	½c.	¾c.	1c.

In the Budget of 1927 another free item was added to cover Tops at the instance of certain western members. The Tops item is as follows:—

272b	Crude petroleum not in its natural state ·725 specific gravity or heavier but not heavier than· 770 specific gravity at 60 degrees temperature when imported by oil refiners to be refined in their own factories until the first of July 1931..........................	Free	Free	Free

If items 271-272 and 272A, which are the items covering the Refined Gasolines and of which item 271 includes Refined Kerosene, are rewritten and item 272B left as it is, raw unrefined Gasoline and Kerosene will be admitted duty free. The American refiners will manufacture such Tops to evade the duty while the Canadian importers will merely put up small cheap skeleton skimming plants that will employ very few unskilled men to separate Gasoline and Kerosene, both of which when refined are premium products. The practical effect of retaining item 272B would be to defeat the object of revising the tariff on gasolines and will continue to vitiate the present tariff on Kerosene in item 271 which has been the case since the item was inserted.

Eliminating the item throws such imports into item 267B reading as follows:—

Crude petroleum not in its natural state ·7900 specific gravity or heavier at 60 degrees temperature when imported by oil refiners to be refined in their own factories. Per gallon, 3/10c. 4/10c. ½c.

In this instance, however, the gravity is heavier so that the amount of refining is expanded to provide other ingredients besides Gasoline and Kerosene in the raw material for industrial and social uses.

For these reasons the attached sheet "Revised Gasoline Tariff" covers the cancellation of item 272B as well.

Toronto, Ontario, August 30th, 1930.

Revised Gasoline Tariff

Of the petroleum schedules, items 272-272A and 272B are cancelled and item 271 is rewritten to read as follows:—

Item	—	British Preference	Intermediate Tariff	General Tariff
271	Distilled, refined and purified petroleum oils—coal oil and kerosene, gasoline, engine distillate, naphtha; mixtures and blends of which distilled, refined and purified petroleum oils are the preponderant part, and products of petroleum, n.o.p., lighter than ·8235 specific gravity at 60 degrees temperature, per gallon	1½c.	2¼c.	2½c.

Joint Undertaking of September 5, 1930

MEMO

The Gasoline schedules in the tariff are as follows:—

Item	Description	British Preferential	Intermediate Tariff	General Tariff
271	Oils, coal and kerosene, distilled, purified or refined petroleum, and products of petroleum, n.o.p., per gallon..........	1½c.	2¼c.	2½c.
272	Gasoline under ·725 specific gravity at 60 degrees temperature..........	Free	Free	Free
272A	Gasoline ·725 specific gravity and heavier but not heavier than ·770 specific gravity at 60 degrees temperature; oils, coal and kerosene, distilled, known as "engine distillate," ·275 specific gravity and heavier, but not heavier than ·770 specific gravity at 60 degrees temperature.......per gallon	½c.	¾c.	1c.

In the budget of 1927 another free item was added to cover "Tops" at the instance of certain members. The Tops item is as follows:—

2723	Crude petroleum not in its natural state ·725 specific gravity or heavier but not heavier than ·770 specific gravity at 60 degrees temperature when imported by oil refiners to be refined in their own factories until July 1st, 1931..................................	Free	Free	Free

If Items 271, 272, and 272A, which are the items covering the refined Gasolines and of which Item 271 includes refined Kerosene, are rewritten and Item 272B left as it is, raw unrefined Gasoline and Kerosene will be admitted duty free. The American refiners will manufacture such Tops to evade the duty which will leave the Canadian manufacturer in the same position as now exists. It is therefore desirable, in order to foster the employment of additional Canadian labour or alternately enrich the National Revenues, that all four items be considered in the revision.

The following revisions are recommended for adoption:—

Of the petroleum schedules, Items 272A and 272B are cancelled and Items 271 and 272 rewritten, viz,—

Item	—	British Preferential	Intermediate Tariff	General Tariff
271	Distilled, refined and purified petroleum oils, coal and kerosene, gasoline, engine distillate, naphtha, mixtures and blends of which distilled, refined and purified petroleum oils are the preponderant part, and products of petroleum, n.o.p., lighter than ·8236 specific gravity at 60 degrees temperature, per gallon..	2c.	2¼c.	2½c.
272	Natural casinghead or absorption gasoline, lighter than ·6690 specific gravity at 60 degrees temperature, when imported by oil refiners to be blended with products manufactured in their own refineries......	Free	Free	Free

The adoption of those recommended revisions will not result in any increase of prices to the retail consumer because of them.

Signed

THE BRITISH AMERICAN OIL COMPANY LIMITED.

A. L. Ellsworth,
President.

THE CANADIAN OIL COMPANIES LIMITED.

F. H. Littlefield,
Vice-President.

IMPERIAL OIL, LIMITED.

C. O. Stillman,
President.

McCOLL FRONTENAC OIL COMPANY LIMITED.

J. Irwin,
President.

Toronto, Ont., September 5, 1930.

MEMORANDUM FILED BY WITNESS V. ROSS

As shown on page 21 of the hearing of March 8, Colonel Ralston asked:

"As a matter of fact, you did, I have no doubt, present to the government a statement of your costs in order to demonstrate to the government that there should be an increase in duty?"

Answer:

For a considerable period of years, the duty on gasoline was 2½ cents per gallon, the same as it is to-day. This duty was the creation of Mr. Fielding, who later, in consideration, as he said, of the needs of the fishermen, reduced it to 1 cent per gallon. Under the 2½ cents duty of Mr. Fielding, there was, as there is now, a considerable amount of gasoline coming in duty free.

Under the previous government, there was a tariff of 1 cent per gallon on a portion of the gasoline imported into Canada. The tariff board, on its own initiative, began an inquiry into the gasoline situation and we, at the request of that board, submitted a brief, the original copy of which I have here, and which I file.

That was in the spring of 1928. There was no change in the tariff, although we were given to understand that it would be increased. We were not then in the position actually of petitioning for an increase in the duties, but our industry was subject to review by the tariff board and our brief was in compliance with the board's request. (*Brief filed but not printed.*)

My understanding was that our brief established a case for tariff protection but because of considerations other than those bearing upon the merits of the case, there was no change.

When a revision of the tariff was under consideration by the present government in the fall of 1930, we, and I believe all of the refining companies, made representations; in our case they were based on a memo dated August 28, 1930, which refers to the brief mentioned above and which was presented without other written comment.

Our written recommendations are contained in a letter, which I have here.

The next communication was in the form of a joint undertaking upon the part of the principal refining companies in Canada that, in the event of an increased tariff on gasoline, these companies pledged themselves not to take advantage of such increase in duty to increase the price to the retail consumer and a copy of that undertaking I also have here.

Subsequently, we made further representations to the government in support of an increased tariff on lubricating oils and asphalt, but without result; that is, the government did not act upon our recommendations.

PETITION TO THE HONOURABLE ACTING MINISTER OF NATIONAL REVENUE AT OTTAWA

On behalf of the undersigned petroleum manufacturers in Canada, we submit for your consideration evidence that gasoline is being dumped into Canada in contravention of the dumping clauses of the Customs Act as revised by Bill No. 3, an Act to amend the Customs Act, passed in the 1st Session, 17th Parliament, 21 George V, 1930.

Since the petroleum manufacturing industry is an extractive one, the difficulty of exhibiting clear evidence of the reasonableness of price relationships is inherent. Nevertheless, the status of the industry at large is fairly clearly defined when the price relationships of the raw material and the various finished products are compared over widely separated areas and over periods sufficiently long to eliminate temporary variations.

We submit for your consideration that gasoline produced in Pennsylvania refineries from Pennsylvania crude oil is now being dumped into Canada to the detriment of the existing petroleum refiners in Canada whose business is thereby placed in jeopardy because of the practice.

We are submitting for your consideration Exhibit "A," entitled "Comparison of Crude Oil Well Prices and Gasoline Prices in Imperial Gallons in the Producing Regions of the United States." We have selected the three fields of Oklahoma, North Texas, and California for comparison with the Pennsylvania field because these three fields represent 84 per cent of the production of oil in the United States and, in our opinion, should be representative of conditions which should exist in the industry as a whole. The American Petroleum Institute publication, known as "Petroleum Facts and Figures," for the year 1929 on page 41 shows a gross production in the United States of 1,005,598,000 barrels of crude petroleum. Of this total the three states above produced—

Oklahoma	253,704,000 bbls.
Texas	298,441,000 bbls.
California	292,037,000 bbls.
	844,182,000 bbls.

or approximately 84 per cent. In the same year Pennsylvania produced 11,805,000 barrels, equivalent to but 1·17 per cent of the total; so that there is no question but that the status of the petroleum industry is determined by the preponderant productions in Oklahoma, Texas, and Californit.

It will be observed from Exhibit "A" that the differentials between the well price of crude per imperial gallon and the gasoline price per imperial gallon in the fields, Oklahoma, North Texas, and California, are alike with a reasonable degree of approximation. It will be noticed further that during the years 1925 and 1926 the Pennsylvania crude oil fields were on much the same structure as the three well-known and prolific fields. From and including 1927, however, the Pennsylvania relationship between the well price of crude oil and the price of gasoline has been steadily falling. In the Pennsylvania region during the year 1929, gasoline was offered for sale at but 1 cent per imperial gallon above the price of crude per gallon and the condition has continued until at the present time (September 15) the differential in price per imperial gallon between Pennsylvania crude and gasoline produced from it is but ·96 cents. This low differential is not representative of the industry at large, as will be seen from the attached statement entitled Exhibit "A."

It is axiomatic that the prices of gasoline should be substantially higher than the prices of crude oil from which it is produced, just as the price of flour is substantially higher than the price of wheat from which the flour is produced. This condition of affairs does exist in Oklahoma, Texas and California, but does not exist in Pennsylvania.

There are, of course, reasons for the steady falling off of the differential in Pennsylvania existing between the well price of crude oil and the selling price of gasoline. Some of these reasons are as follows:—

(*a*) The extensive advertising campaign for 100 per cent pure Pennsylvania lubricating oil adopted some years ago by the Pennsylvania refiners jointly has developed so large a market for these lubricating oils that the runs of Pennsylvania crude oil have been increased beyond the capacity of the refiners to properly market the gasoline produced, with the result that this gasoline has become a by-product to be sold at whatever price can be realized.

(*b*) Former outlets for Pennsylvania gasoline in the Atlantic Coast states are no longer available, due to the fact that cheap Venezuelan and

Mexican gasoline are entering the Northern Atlantic ports of the United States free of duty and are taking away gasoline business formerly enjoyed by the Pennsylvania refiners, with the result that they have been forced to seek other markets.

(c) In seeking other markets Pennsylvania refiners are on a very favourable basis as regards freight rates in shipping gasoline into Canada; in fact, Pennsylvania refiners are on a more favourable basis than Canadian refiners in this respect. Gasoline may be shipped from Bradford, Pennsylvania, via Buffalo and Toronto, to Ottawa, Ontario, at a rate of 36·5 cents per cwt., equivalent to 2·900 cents per imperial gallon; while a Canadian refiner located at Toronto, Ontario, must pay 37·5 cents per cwt., equivalent to 3·000 cents per imperial gallon.

We submit that the marketing problems of the Pennsylvania refiners should be solved in their own territory, and that they should not have available the Canadian market as a dumping ground.

We submit that an arithmetic average of the differentials between the well prices of the Oklahoma, Texas, and California crude fields and the gasoline prices in the same fields obtained from the "Oil Price Handbooks" published by the *National Petroleum News*, in Cleveland (the authority of which is recognized by the industry) for each year, or by months from the *National Petroleum News*, which is published weekly, will give a basis that determines the dominating economics of the petroleum industry in the United States. By these records, which are attached as Exhibit "B", it will be noticed that as of September 15 the arithmetic average (the weighted average as well) of the differential in price of gasoline over the crude oil price per imperial gallon is 3·662 cents, while the differential in price of the Pennsylvania fields of gasoline over the crude oil price is but ·96 cents, or a difference of 2·70 cents per imperial gallon.

We submit that the petroleum manufacturing industry in Canada should be protected by preventing the importation of Pennsylvania gasoline into Canada at any other differential over the crude price than that determined by taking the average of the three major fields in the United States enumerated above.

BRITISH AMERICAN OIL CO. LIMITED,

....

IMPERIAL OIL COMPANY, LIMITED,

....

McCOLL-FRONTENAC OIL CO. LIMITED.

....

October 17th, 1930.

EXHIBIT "A"

Comparison of the Crude Oil Well Prices and Gasoline Prices in Imperial Gallons in the Producing Regions of the United States

Year	Pennsylvania				Oklahoma			
	Well price crude oil x per 35 I.G. bbl. average dollars and cents	Crude oil Per I.G. x average (cents)	Gasoline 58/60 per I.G. x average cents	Differential of gasoline prices over crude prices per I.G. x cents	Well price crude oil x per 35 I.G. bbl. average dollars and cents	Crude oil per I.G. x average (cents)	Gasoline 58/60 per I.G. x average cents	Differential of gasoline prices over crude prices per I.G. x cents
1925	3·51	10·0286	16·152	6·124	1·88	5·371	12·78	7·409
1926	3·48	9·9428	15·504	5·561	2·12	6·006	12·55	6·544
1927	2·98	8·5143	11·196	2·681	1·41	4·029	8·05	4·021
1928	3·39	9·6857	12·156	2·470	1·39	3·971	9·28	5·289
1929	3·59	10·2571	11·28	1·023	1·46	4·171	9·26	5·089
1930 (Sept) 15th	2·50	7·1428	8·10	·960	1·36	3·886	7·20	3·314
	North Texas				California			
1925	1·85	5·286	12·744	7·458	1·74	4·971	12·276	7·305
1926	1·98	5·657	12·408	6·731	1·74	4·971	13·764	8·793
1927	1·37	3·914	8·064	4·150	1·22	3·480	9·924	6·438
1928	1·32	3·771	9·384	5·613	1·13	3·228	11·76	8·532
1929	1·36	3·886	8·772	4·886	1·30	3·714	10·908	7·194
1930 (Sept.) 15th	1·36	3·886	7·200	3·314	1·84	3·257	9·60	4·357

x Imperial Gallon.

EXHIBIT "B"

Comparison of the Crude Oil Well Prices and Gasoline Prices in Imperial Gallons in the Producing Regions of the United States

Average of 3 large fields in Sept.

		Oklahoma	
Pennsylvania	·960c. per Imp. Gal.	Texas	3·662 per Imp. Gal.
		California	

Difference 2·70c. per Imperial Gallon

PETITION TO R. W. BREADNER, ESQ., COMMISSIONER OF CUSTOMS FOR CANADA

Sir,—On October 20, the undersigned petroleum manufacturers in Canada submitted evidence to your department that gasoline was being dumped into Canada from Pennsylvania in contravention of dumping clauses of the Customs Act, as revised by Bill No. 3, an Act to amend the Customs Act, passed in the 1st session, 17th Parliament, 21 George V, 1930.

Upon investigation your department found that Pennsylvania gasoline was being invoiced at values only slightly above the posted value of Pennsylvania crude oil. The fact that for a period of 5 years normal gasoline differentials in the United States ranged from 3 cents to 6 cents per U.S. gallon above the price of crude oil resulted in your department ruling that a differential of 3 cents per U.S. gallon should be established on gasoline invoiced out of the Pennsylvania-New York district.

At that time the situation in the Mid-Continent and other refining areas gave no indication of inordinate stress, but has since changed. Distress gasoline is now being thrown on the market by companies whose economic positions have been jeopardized by their excessive stocks.

Appreciating the difficulty presented to your department in establishing an equitable basis for the fair market value of gasoline for duty purposes applicable to all United States refining areas, we respectfully submit for your approval, the following plan, which in our considered opinion, has such required advantages.

The granting of this application will have the effect of conserving the domestic market for the existing and future Canadian refineries without the result of increasing, because of it, the price to the retail consumers. In this latter respect we give our understanding.

As shown in our brief of October 20, Mid-Continent Crude Oil represents over 50 per cent of the United States production. This dominant factor has determined both the crude oil and refined product prices in all the important competitive refining areas.

Just as the posted well price of crude oil in the Bradford-Alleghany field is taken as the basis on which to add the established 3 cents per U.S. gallon differential for gasoline refined in the Pennsylvania-New York area, we propose under this plan that the fair market value of gasoline for duty purposes in the various major refining areas in the United States other than the Pennsylvania-New York area be established by applying differentials over the posted well price of 36° Beaume Mid-Continent Crude Oil, which has been, and is the average grade.

In order to equalize the laid-down gasoline prices from Pennsylvania-New York refineries vs. Mid-Continent refineries at recognized competitive points, these suppliers have at issue in Ontario, we propose a differential of 3·25 cents per U.S. gallon above the posted well price of 36° Beaume Mid-Continent crude oil, which is to-day 95 cents per barrel, or 2·262 cents per U.S. gallon on all gasoline shipped from Mid-Continent Group 3 points.

The imposition of dumping duty on Pennsylvania gasoline resulted in making the laid down price in the recognized Ontario competitive territory as follows:

Bradford-Alleghany Crude Oil.....$	2 15 per bbl.
	5·119c. U.S. Gal.
Add differential	3·00c. "
Fair Market Value for Duty Purposes—	
Per U.S. Gallon	8·119c. "
Per Imp. Gallon	9·733c. Imp. Gal.
Add freight	2·376c. "
Delivered price	12·109c. "

The differential of 3·25 cents per U.S. gallon covering Mid-Continent Group 3 shipments would make the laid-down costs in the recognized Ontario competitive territory as follows:

36 gravity Mid-Continent Crude Oil	95c. per bbl.
Add differential	2·262c. U.S. gal.
	3·25c. "
Fair Market Value for Duty Purposes—	
Per U.S. Gallon	5·512c. "
Per Imp. Gallon	6·614c. Imp. Gal.
Add freight	5·54c. "
Delivered price	12·154c. "

The proposed 3·25 cents per U.S. gallon differential compares as follows with gasoline differentials above the price of Mid-Continent Crude Oil prevailing between the years 1925 to 1929:

—	Well Price Mid-Continent Crude, 42 U.S. Gallon Barrel Average.	Crude Oil per U.S. Gal.	Gasoline 58/60 per U.S. Gal.	Differential of Gasoline prices over crude prices Per U.S. Gal.
	$ cts.	cts.	cts.	cts.
1925	1·88	4·476	10·650	6·174
1926	2·12	5·047	10·458	5·411
1927	1·41	3·357	6·706	3·351
1928	1·39	3·309	7·716	4·407
1929	1·46	3·476	7·716	4·240

Posted well prices in the Mid-Continent and Wyoming fields of production being the same for crude oils of equivalent gravities, it follows that in cases of other refining areas having local crude supplies that their finished product prices structure must be competitive with finished products from either of these two basic regions. We therefore propose that in the cases of other major refining areas in the United States, that the differential of 3·25 cents per U.S. gallon above the cost of 36 gravity crude oil in the Mid-Continent and Wyoming fields of production should be increased by freight charges on the crude oil from the nearest of either of these two competitive fields.

These freight charges with differentials to be obtained in the various refining areas are shown as follows:

REFINING AREA

—	Montana and District	Minneapolis and District	Chicago and District	Wood River and District	Toledo, Detroit, Cleveland and District	Texas Louisiana and District
Differential in Mid-Continent and Wyoming Refining Areas	3·25	3·25	3·25	3·25	3·25	3·25
Freight rates on Crude Oil from:—						
Mid-Continent		2·48	2·14	1·77	3·30	1·55
Wyoming Field	2·96					
Differential	6·21	5·73	5·39	5·02	6·55	4·80

(U.S. Gallons).

Round figure differentials proposed are as follows:—

Refining Area—	Differentials per U.S. gal. over 36 Gr. Mid-Continent Crude Oil cts.
Mid-Continent and District	3·25 U.S. Gal.
Wyoming and District	3·25 "
Montana and District	6·25 "
Minneapolis and District	5·75 "
Chicago and District	5·40 "
Wood River and District	5·00 "
Toledo, Detroit, Cleveland and District	6·50 "
Texas Louisiana and District	4·80 "

	Differential per U.S. gal. over Bradford-Alleghany Crude Oil
Pennsylvania-New York and District	3·00 U.S. Gal.

If delivered prices or gasoline to various destinations in the Dominion of Canada are worked out on the above basis, it will be seen that the prices are competitive, being approximately equal in the City of Toronto.

Pennsylvania and New York refining areas enjoy a slight advantage east of Toronto, while Chicago, Wood River, Toledo, and Mid-Continent areas would have a slight advantage west of Toronto. East of Montreal would be in favour of Pennsylvania, and in the West prices for gasoline from Mid-Continent, Minneapolis and Wyoming districts would be about equivalent at Winnipeg, while Montana prices would be competitive with Wyoming prices slightly east of Regina. These, of course, are in accordance with the geographical location which is reasonable to expect.

The above plan accomplishes the purpose of placing refiners upon the same standard of crude cost, and on a competitive basis in all Canadian markets in which they have a right to assume that they can economically compete.

While this differential of 3·25 cents per U.S. gallon above the cost of the 36 Beaume Mid-Continent Crude Oil will give us the measure of protection required, we submit that the value represented by adding this differential to the cost of Crude Oil still does not represent a fair profit to Mid-Continent refiners as did normal differentials of from 3·0 cents to 6·0 cents per U.S. gallon during the years 1925 to 1929 inclusive as shown in our brief of October 20.

These facts are substantiated by the authoritative data appearing in "The Oil and Gas Journal" as per attached photostat which reveals that the Mid-Continent refiners running Crude Oil under conditions at the date thereof incurred actual losses in the manufacture and disposal of their products in the wholesale market, this analysis is based on a refinery gasoline price of 5 cents per U.S. gallon. At the present time gasoline is being freely offered at 4 cents per U.S. gallon which has increased the losses as follows:—

	From	To
Figuration No. 1	$0·30 per bbl.	$0·46 per bbl.
" No. 2	0·12 "	0·42 "
" No. 3	0·21 "	0·46 "

We are attaching a map on which the proposed differentials have been marked for the various United States refining areas.

THE BRITISH AMERICAN OIL CO. LTD.
A. L. Ellsworth.
IMPERIAL OIL, LIMITED.
Victor Ross.
McCOLL-FRONTENAC OIL CO. LIMITED.
John Irwin.

December 22, 1930.

The Oil and Gas Journal

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REFINED MARKET DISCOUNTS CRUDE CUTS

Even After Reduction of 35 Cents in Posted Price of Mid-Continent Oils No Margin Left for Profit

By W. T. Ziegenhain

A summary of refinery realizations indicates that the general Mid-Continent crude cut, effective early this week, has already been fully discounted by the refined oil market and prices are not expected to go lower. Even after the 35-cent reduction in the posted price of crude, there is no margin of profit indicated for a skimming operation, skimming and cracking, nor a complete operation including the manufacturing of lubricating oils and bright stock. It is impossible to establish any standard series of costs in the manufacture of the various commodities, due to the fact no two plants operate exactly the same, and the margins shown here intend only to serve as typical of what may be expected running Seminole crude in modern plants of 5,000 barrels capacity.

In the first case, the margin was figured on an ordinary modern skimming plant, manufacturing only gasoline, kerosene, distillate, gas oil, and fuel oil. It was assumed this plant would have a bare manufacturing expense of 11 cents per barrel. In the second case, it was assumed that the plant operates as a modern unit balanced for maximum cracking. In this plant it was assumed that 72 per cent gasoline would be manufactured and all fuel oil cracked in a non-residuum operation. It was also assumed that the bare manufacturing and maintenance expense would be 31 cents per barrel, an increase of approximately 20 cents per barrel based on the crude charged compared with the manufacturing and maintenance expense in the skimming operation.

> **Plant Margins Vary for Every Set of Conditions**
>
> In the accompanying article the writer has attempted to summarize refinery costs and earnings in Oklahoma based on present prices. The accuracy of the conclusions drawn is naturally dependent upon the accuracy of the assumptions made. It is intended to cover a general situation in the Mid-Continent at present and to gain an accurate understanding of any particular case, it is of course necessary to substitute actual conditions as they exist in any one plant and no two analyses will be the same.
>
> Any suggestions from plant operators regarding additional phases of this problem will be welcomed. Criticism of the data given in the accompanying article is invited.

In the third case, it was assumed the plant reduced the crude to make suitable lub stock bottoms which were further processed, first to make a maximum yield of bright stock and then a maximum resultant yield of neutrals. The cracking capacity in the third case is naturally lower than in the second case, due to the lesser charging stock available and the gasoline yield is proportionately reduced.

COMPARISON OF MARGINS

Under the conditions outlined, the skimming plant shows a manufacturing loss of 6 cents per barrel before paying for overhead, depreciation, sales expense, etc. Considering an investment of $1,650,000 in the plant, including tank cars, the final loss from operation is shown as 30 cents per barrel. The combined skimming and cracking plant shows a profit from operation of 19 cents per barrel before the indirect charges are applied against this margin. On the basis of an investment of $2,250,000 the depreciation, sales expense, overhead, etc., reduce this profit to a 12-cents-per-barrel loss. On this basis it appears that it remains profitable to crack.

In the third case, in which maximum yields of bright stock and lubricating oils are made, a refinery margin of 16 cents per barrel is shown and the net margin, after paying all indirect charges, shows a loss of 21 cents per barrel. This indicates that the manufacture of bright stocks and lubricating oils did not pay according to the present level of refined oil prices. This may or may not be true in the individual cases, and depends considerably upon the quantity produced, in which case there is a decided advantage accruing to the larger plants. The price of 21 cents was taken on the bright stock and it was assumed that the plant would make 10,500 barrels of this material per month. The cost of the base oil was figured at 1½ cents per gallon. The total manufacturing expense in making bright stock, including the cost of the base oil, was figured at 16.2 cents per gallon. The investment in the bright stock plant and the lub plant was figured slightly in excess of $700,000, bringing the total investment in the plant to $2,950,000.

SEMINOLE CRUDE USED

These three types of operation were figured on Seminole crude, in as much as it is a typical Mid-Continent oil, and is suitable for running in the three types of plants shown in the analysis. A larger quantity of Seminole crude is also produced than any other single crude in the Mid-Continent, and this makes its choice portray conditions typical among a greater number of plants.

CONDITIONS PRIOR TO CUT

For several weeks past, U. S. Motor gasoline has been selling as low as 4½ cents from some Mid-Continent refineries. At the same time 39 gravity crude was posted at $1.39½ per barrel and it is obvious there was little chance of a profit in refinery operations under these conditions.

The low gasoline price was the result of many factors, but it is apparent, as stated previously, that the crude cut was fully anticipated. Even with a price of 5 cents per gallon for gasoline under the old crude schedule a refinery loss of 41½ cents per barrel resulted in the average skimming plant, with a total loss of 65½ cents per barrel after paying all sales, overhead, depreciation and other indirect charges. The combined skimming and cracking plant showed a loss per barrel of 16½ cents at the refinery, and a total operating loss of 47½ cents after paying all indirect charges. In a similar manner, the complete plant showed a refinery loss of 19½ cents, and a total loss after paying all expenses of 56½ cents per barrel.

PLANT INVESTMENTS

In all of these cases it has been assumed that the plants are modern in every respect and the investments have been figured on the basis of building the plants new. There has been a distinct trend toward lessening the refinery investment for any given work. In other words, an ordinary topping unit completely fractionating all overhead cuts is now available at probably half the cost of a distillation unit necessary to run the same quantity of oil, such as used five years ago. Similar savings in the total investment have been made in other phases of the refining process, except possibly in the lubricating oil manufacturing equipment. The unit cost has been decreased here also, but the investment in equipment has been materially increased during the last few years in order to produce motor oils meeting the popular demands and having such characteristics as low pourpoint, high flash, a good temperature viscosity curve, etc.

Refinery revenue per barrel of crude run based on skimming 39 gravity Seminole crude in a 5,000-bbl. modern topping unit and selling all products at present tank car spot prices:—

Yield from crude—		Price per gal.	Revenue per bbl.
39·0% Gasoline (U.S.M.)		$0.05	$0.80
5·0% Kerosene (41-42 Gr.)		.03	.06
3·0% Distillate (170 fl.)		.02⅞	.04
20·0% Gas Oil 32-33 Gr.)		.02¼	.19
30·0% Fuel Oil (19 Gr.)		.50 (bbl.)	.15
3·0% Loss.			
100·0%			$1.24
Posted crude price	$1.04		
Pipe line charge	.15		
Bare manufacturing expense and maintenance.	.11		
Plant expense			$1.30
Refinery margin per barrel skimmed			$0.06 (loss)
Sales, traffic and overhead expense	$0.10		
Interest, taxes, depreciation and insurance	.14		.24
Net profit from operations			$0.30 (loss)
Investment in plant (including tank cars)	$1,650,000		

Refinery revenue per barrel of crude run based on skimming and cracking 39 gravity Seminole crude in a modern 5,000-bbl. balanced plant and selling all products at present tank car spot prices:—

Yield from crude—		Price per gal.	Revenue per bbl.
72·0% Gasoline (U.S.M.)		$0.05	$1.51
5·0% Kerosene (41-42 Gr.)		·03	·06
8·0% Distillate (170° fl.)		·02⅞	·10
6·0% Coke		2.00 ton	.02
9·0% Loss and gas			
100·0%			$1.69
Posted crude price	$1.04		
Pipe line charge	.15		
Bare manufacturing expense and maintenance.	.31		
Plant expense			$1.50
Refinery margin per barrel run			.19
Sales, traffic and overhead expense	$0.10		
Interest, depreciation, taxes and insurance	.21		.31
Net profit from operations			$0.12 (loss)

Division of Expenses

Sales	$0·035
Traffic	·010
Overhead	·055
	$0·10

Charged on Investment

Interest	5·0%
Taxes	1·0%
Depreciation and obsolescence:—	
Cracking plant	20·0%
Balance of plant	8·0%
Insurance	1·0%

Refinery revenue per barrel of crude run based on completely refining 39 gravity Seminole crude to make bright stock and lubricants in a modern 5,000-bbl. plant and selling all products at present tank car spot prices:

Yield from crude—		Price per gal.	Revenue per bbl.
60·0% Gasoline (U.S.M.)		$0.05	$1.26
5.0% Kerosene (41-42 Gr.)		.03	.06
6·0% Distillate (170 fl.)		.02⅞	.08
1·5% Lub Stock (280 Visc. at 100)		.15½	.10
7·0% Bright Stock (150 Visc. at 210)		.21	.62
10·00% Fuel Oil (60% sludge)		.40	.04
4% Coke		2.00 ton	.01
6·5% Loss and gas.			
100·0%			$2.17
Posted crude price	$1.04		
Pipe line charge	.15		
Bare manufacturing expense and maintenance.	.82		
Plant expense			$2.01
Refinery margin per barrel run			$0.16
Sales, traffic and overhead expense	$0.10		
Interest, depreciation, taxes and insurance	.27		.37
Net profit from operations			$0.21 (loss)
Investment in plant (including tank cars)	$2,950,000		

Division of Expenses	
Sales	$0·035
Traffic	·010
Overhead	·055
	$0·10

Charges on Investment	
Interest	5·0%
Taxes	1·0%
Depreciation and obsolescence—	
Cracking equipment	20·0%
Balance of plant	8·0%
Insurance	1·0%

Added Monthly Plant Expenses Due to:—	
Making bright stock	$21,400
Making lubs	8,500
	$79,900

—	Prices at Edmonton, Alberta			Prices at Calgary, Alberta		
	Wyoming and District	Montana (Kevin) and District	Mid-Continent and District	Wyoming and District	Montana (Kevin) and District	Mid-Continent and District
	cts.	cts.	cts.	cts.	cts.	cts.
	U.S. Gal.	U.S. Gal.	U.S. Gal.	U.S. Gal.	U.S. Gal.	U.S. Gal.
36 Gravity Crude Oil in Wyoming Field..........	2·262	2·262	2·262	2·262	2·262	2·262
Add Differential..........	3·250	6·250	3·250	3·250	6·250	3·250
Fair Market Value for duty purposes—						
For U.S. Gallon..........	5·512	8·512	5·512	5·512	8·512	5·512
	Imp. Gal.	Imp. Gal.	Imp. Gal.	Imp. Gal.	Imp. Gal.	Imp. Gal.
Per Imp. Gallon..........	6·614	10·214	6·614	6·614	10·214	6·614
Gasoline freight..........	12·244	5·987	14·540	10·644	4·387	12·941
Gasoline Delivered..........	18·858	16·201	21·154	17·258	14·601	19·555

	Prices at Lethbridge, Alberta			Prices at Regina, Sask.		
	cts.	cts.	cts.	cts.	cts.	cts.
	Imp. Gal.	Imp. Gal .	Imp. Gal.	Imp. Gal.	Imp. Gal.	Imp. Gal.
Value per Imp. Gallon (As above)..........	6·614	10·214	6·614	6·614	10·214	6·614
Gasoline freight..........	9·204	2·947	11·501	10·052	5·994	10·488
Gasoline Delivered..........	15·818	13·161	18·115	16·666	16·208	17·102

	Prices at Weyburn, Sask.			Prices at Brandon, Man.		
	cts.	cts.	cts.	cts.	cts.	cts.
	Imp. Gal.	Imp. Gal.	Imp. Gal.	Imp. Gal.	Imp. Gal.	Imp. Gal.
Value per Imp. Gallon..........	6·614	10·214	6·614	6·614	10·214	6·614
Gasoline freight..........	9·092	6·947	9·527	8·535	8·147	8·735
Gasoline Delivered..........	15·706	17·161	16·141	15·149	18·361	18·347

	Prices at Champion, Alta.			Prices at Kindersley, Sask.		
	cts.	cts.	cts.	cts.	cts.	cts.
	Imp. Gal.	Imp. Gal.	Imp. Gal.	Imp. Gal.	Imp. Gal.	Imp. Gal.
Value per Imp. Gallon..........	6·614	10·214	6·614	6·614	10·214	6·614
Gasoline freight..........	9·920	3·670	12·220	12·692	8·147	13·127
Gasoline Delivered..........	16·534	13·884	18·834	19·306	18·361	19·741

	Prices at Toronto, Ontario				
	Mid-Continent and District	Chicago and District	Wood River and District	Toledo and District	Pennsylvania, New York and District
	cts.	cts.	cts.	cts.	cts.
	U.S. Gal.	U.S. Gal.	U.S. Gal.	U.S. Gal.	U.S. Gal.
36 Gr. Grade Oil in Mid-Continent Field.	2·262	2·262	2·262	2·262	5·119*
Add differential..........	3,250	5,400	5,000	6,500	3·000
Fair Market Value for duty purposes—					
Per U.S. Gallon..........	5·512	7·662	7·262	8·762	8·119
	Imp. Gal.	Imp. Gal.	Imp. Gal.	Imp. Gal.	Imp. Gal.
Per Imp. Gallon..........	6·614	9·194	8·714	10·514	9·733
Gasoline freight to Toronto..........	5·540	2·890	4·485	2·336	2·376
Gasoline delivered Toronto..........	12·154	12·084	12·199	12·850	12·109

*(Bradford Crude Oil).

	Cost of kages	otal of Expenses 1, 2, 3		Net Earnings	
	Per Imperial Gallon	otal	Per Imperial Gallon	Total	Per Imperial Gallon
ts.	cents	cts.	cents	$ cts.	cents
91	0·02	61,805 87	20·90	4,018,422 18	1·66
...	....	13,040 28	15·09	66,709 82	0·04
91	0·07	74,846 15	18·68	3,951,712 36	1·01
98	0·10	,546 95	22·26	397,131 11	1·37
...	....	06,462 27	16,70	48,154 36	0·50
98	0·07	72,029 22	20·88	445,285 49	1·15
47	2·71				
44	0·50	78,480 39	41·49	391,848 65	2·30
91	2·10				
47	....	77,618 54	4·33	1,184,328 60	0·28
45	0·33	94,897 17	8·50	191,546 65	0·51
...	....	17,679 24	3·16	51,052 20	0·26
20	10·4	07,955 20	78·97	70,274 02	3·67
70	1·7	40,713 33	45·97	31,576 61	3·15
06	10·9	79,843 38	136 61	9,566 41	7·27
68	0·0	44,062 62	12·07	6,327,191 09	0·68
...	....	,177 11	80·11	797,775 12	26·60
...	....	24,735 98	....	90,325 41	....
68	0·0	70,975 71	13·31	7,215,291 62	0·77

—	Prices at Winnipeg, Manitoba		
	Mid-Continent and District	Minneapolis and District	Wyoming and District
	cts.	cts.	cts.
	U.S. Gal.	U.S. Gal.	U.S. Gal.
36 Gr. Grade Oil in Mid-Continent Field	2·262	2·262	
36 Gr. Crude Oil in Wyoming Field	....	....	2·262
Add differential	3·250	5·750	3·250
Fair Market Value for duty purposes—			
Per U.S. Gallon	5·512	8·012	5·512
	Imp. Gal.	Imp. Gal.	Imp. Gal.
Per Imp. Gallon	6·614	9·614	6·614
Gasoline freight to Winnipeg	7·320	4·000	7·405
Gasoline delivered Winnipeg	13·934	13·614	14·019

Above prices do not include 2·50c. per Imperial Gallon duty.

(8)

IMPERIAL OIL LIMITED NET PROFIT ON REFINING & MARKETING ACTIVITIES IN CANADA—YEAR 1930

—	Total for All Products		Per Gallon of Gasoline sold Direct and Indirect		Per Gallon of Gasoline Sold Direct	
	Amount	%	Per I.G.	%	Per I.G.	%
			c.		c.	
INCOME—						
Gross Value of Sales	$119,171,253 71	100·00	19·69	100·00	22·56	100·00
EXPENSES—						
Marketing Expenses	13,315,988 82	11·17	2·45	12·44	3·96	17·55
Package Expenses	815,300 68	0·68	0·01	0·05	0·02	0·09
Sales Tax	654,987 00	0·55	0·13	0·66	0·13	0·58
Taxes, Marketing Department Provincial and Municipal exclusive of Provincial Gasoline Tax	733,302 67	0·62	0·13	0·66	0·22	0·97
Freight, Refineries to Marketing Stations	14,300,754 53	12·00	2·39	12·14	2·45	10·86
Contingency Account	1,188,954 14	1·00	0·23	1·17	0·37	1·64
Manufacturing Expense	13,600,172 01	11·41	2·16	10·97	2·44	10·82
Taxes, Manufacturing Dept. Provincial and Municipal	220,471 32	0·18	0·04	0·20	0·06	0·26
Transportation Charges, etc. on Crude Oils and materials consumed	24,091,780 22	20·22	3·95	20·06	3·95	17·51
COSTS UNEFFECTED BY FLUCTUATIONS IN CRUDE OIL PRICES	68,921,711 39	57·83	11·49	58·35	13·60	60·28
Cost at Point of Origin of Crude Oils and Materials consumed	43,338,103 75	36·37	7·11	36·11	7·15	31·69
Dominion Income Tax	584,247 48	0·49	0·08	0·41	0·15	0·67
Total Costs	112,844,062 62	94·69	18·68	94·87	20·90	92·64
Net Profit on 934,332,320 I.G. manufactured and sold (equivalent to 0·68 per I.G.)	6,327,191 09	5·31	1·01	5·13	1·66	7·36
		100·00	19·69	100·00	22·56	100·00
Net Profit from sales of other miscellaneous Products and miscellaneous merchandise	888,100 53					
Total Profits from refining and marketing Activities	$ 7,215,291 62					

(10)

SPECIAL INFORMATION COVERING MAJOR

—	Year Ended Dec. 31	Net** Income	Earn. per Com. Share	Fixed Charges Times Earned
		$	$ cts.	
Atlantic Refining Co.	1929	17,332,418	6 20	23·65
	1930	2,742,688	1 02	4·64
	1931	513,750	0 19	1·62
Barnsdall Corp.	1929	7,205,161	3 25	....
	1930	5,130,891	2 34	....
	1931	d 3,268,637	d 1 54	....
Continental Oil Company	1929	9,028,661	1 90	5·80
	1930	255,598	0 05	1·15
	1931	d 12,045,575	d 2 54	*
Gulf Oil Corp. of Pa.	1929	44,489,686	9 83	13·04
	1930	10,625,252	2 35	2·99
	1931	*	*	*
Humble Oil & Refining	1929	32,535,081	10 94	13·59
	1930	18,083,490	6 08	7·85
	1931	2,765,092	0 93	*
Mid-Continent Petroleum Corp.	1929	7,683,378	4 14	....
	1930	1,493,057	0 80	....
9 Mos. Ended Sept. 30	1931	d 4,154,729	d 2 24	....
Ohio Oil Company	1929	12,347,649	5 14	....
	1930	10,630,015	1 21	....
12 Mos. Ended Sept. 30	1931	d 1,618,132	d 0 76	....
Phillips Petroleum Company	1929	13,212,591	5 20	7·47
	1930	3,040,630	0 71	2·37
	1931	d 5,576,409	d 1 34	d 0·76
Pure Oil Company—Year Ended Mar. 31	1930	6,539,522	1 52	5·85
Year Ended Mar. 31	1931	2,617,748	0 18	2·19
	1932	*	*	*
Shell Union Oil	1929	17,573,249	1 26	4·69
	1930	d 5,095,574	d 0 56	0·23
9 Mos. Ended Sept. 30	1931	d 23,641,126	d 1 94	*
Sinclair Consol. Oil Corp.	1929	16,599,037	2 82	3·62
	1930	19,634,119	3 01	4·21
6 Mos. Ended June 30	1931	d 10,415,088	d 1 78	d 3·25
Skelly Oil Company	1929	5,786,490	5 28	7·26
	1930	1,916,872	1 39	2·95
9 Mos. Ended Sept. 30	1931	d 2,987,230	d 3 48	d 3·69

*Not available.
d Deficit.
**Available for dividends.

(10)

AMERICAN OIL COMPANIES—MARCHH 14, 1932

DIVIDEND CHANGES SINCE 1929

Paid $1 regular and $1 extra yearly in 1929 and 1930. Extra discontinued after start of 1931, although regular $1 basis has been maintained.

Paid $2 per share through 1929 and 1930 plus 25 cents extra in 1929. At the beginning of 1931, yearly rate was reduced to $1, and in the third quarter of the year, dividends were omitted.

No dividends paid.

Dividends were paid at the annual rate of $1.50 from 1929 to 1931 inclusive. Since discontinued.

Regular dividends of $2 a share maintained. Extra of 50 cents not paid in Jan., 1932.

Dividends paid at the rate of $2 per annum since the beginning of 1929 were discontinued after the second quarter of 1931.

Dividends were omitted in the second quarter of 1931 following distribution of 25 cents in preceding quarter. Latter payment represented in turn a reduction from 50 cents quarterly rate established September, 1930, after 2-for-1 stock split. The $2 yearly rate was equivalent to the $4 basis to which the former $25 par stock was advanced with a quarterly in June, 1930, after receiving $2 per annum since 1924.

After payments consisting of $1.50 regular and 50 cents extra in 1929, dividends were paid on a regular $2 annual basis throughout 1930 and in the first quarter of 1931, but since discontinued.

Following a disbursement of 25 cents in the initial quarter of 1929, the rate of $1.50 per annum was established and maintained through the third quarter of 1930. Dividends have since been discontinued.

Paid $1.40 a common share in 1929, and maintained disbursements at this rate through the second quarter of 1930. No payments have been made since June 30, 1930. Quarterly payments of $1.37½ on the preferred were maintained from the initial disbursement on October 1, 1929, to the omission of payments with the dividend due October 1, 1931.

Common stock dividends totalled $1.50 regular and 75 cents extra in 1929 and $2 regular in 1930. After two quarterly payments of 25 cents each in 1931, the dividend due July 15, 1931, was passed.

Quarterly payments of $1.50 a share on the preferred were maintained from the initial payment on August 1, 1930, to the omission of payments with the dividend due August 1, 1931. Common dividends of $2 in 1929 and 1930 were passed with the payment due March 15, 1931.

March 15, 1932.

SPECIAL INFORMATION COVERING MAJOR AMERICAN OIL COMPANIES

The following companies have passed into receivership since the beginning of 1929:—

Pan-American Petroleum Co. Interest due June 15, 1931, was not paid. Funded debt amounts to $10,672,400.

Richfield Oil of California. Interest due may 1, 1931, was not paid. Funded debt, exclusive of subsidiary bonds, outstanding on January 14, 1932, amounted to $24,981,000. Placed in equity receivership January 15, 1931.

Reduction in Oil Company Wages

We have been advised from sources which we believe to be thoroughly reliable, that virtually all large oil companies in the United States have made wage reductions, and that these cuts have averaged from 10 to 15 per cent. Generally speaking, reductions have been confined to the refining and marketing divisions, savings in the producing branch having been effected mainly through curtailed operations.

Specifically, the following companies at some time or another during the past two years have announced wage reductions:

1. Phillips Petroleum annual report states that reduction in salaries was effected.
2. Shell Union Oil Salaries cut 5 per cent to 10 per cent in August, 1931.
3. Sinclair Consolidated Oil reported wages and salaries reduced from 10 per cent to 15 per cent.
4. Standard Oil of Indiana—10 per cent cut effective April 1, 1932.
5. Tide Water Oil salaries were reduced 5 per cent to 20 per cent on January 1, 1932. Working hours of wage earners had been reduced from 48 to 40 on November 1, 1931.

SESSION 1932

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

FRIDAY, MARCH 18, 1932

No. 4

Reference.—Price of Gasolene

WITNESS:

L. C. McClosky, Director of Manufacturing, Imperial Oil, Ltd.
Appendix—Documents filed by Witness.

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1932

MINUTES OF PROCEEDINGS

House of Commons,
Friday, March 18, 1932.

The meeting came to order at 10.30 in the forenoon, Mr. Matthews presiding.

Members present: Messrs. Bothwell, Donnelly, Dorion, Gagnon, Hanson, Matthews, Ralston, Raymond, Smoke, Stanley, Spencer, Sullivan.

The Committee again took under consideration the gasoline price reference.

Mr. L. C. McCloskey of the Imperial Oil Limited was recalled and further examined.

The witness filed several exhibits which appear in the appendix hereto.

Certain aspects of accounting and auditing were discussed when this matter was referred to the subcommittee with instructions to confer with the witness and the committee auditor, and report.

The committee adjourned at the call of the Chair.

A. A. FRASER,
Clerk of the Committee.

MINUTES OF EVIDENCE

House of Commons,
Friday, March 18, 1932.

The Select Standing Committee on Banking and Commerce met at 10.30 o'clock, Mr. Matthews presiding.

The Chairman: Gentlemen, at the conclusion of yesterday's session of the committee, Mr. McCloskey of the Imperial Oil was giving evidence. Mr. McCloskey will continue this morning.

Mr. Stanley: Before Mr. McCloskey starts, may I make a request. The Turner Valley situation in the province of Alberta is a very important one, and I was wanting to ask Mr. McCloskey or some other representative of the Imperial Oil to make a statement to the committee either to-day or at a later date, in regard to the whole Turner Valley situation, particularly as it relates to the cost of gasoline to the consumer in the province of Alberta. I am not particular that it be done to-day; so long as that information is given, I am content.

Mr. McCloskey: I shall be pleased to give you that information now, doctor.

Mr. Stanley: It will do me just as well later.

Mr. Bothwell: Mr. Chairman, I think it would be better for us to continue. Yesterday we were dealing with Halifax, and we have the crude oil in the Halifax refinery, and we had gotten to the stage where we were going to find what came out of the crude. We will eventually strike the Turner Valley in dealing with the Calgary refinery.

Mr. Hanson: On the understanding that it will be dealt with, can we go on?

Mr. Stanley: That is satisfactory.

Mr. Ross: Mr. Bothwell, you asked yesterday for those applications for employment with the Imperial Oil.

Mr. Bothwell: Yes.

Mr. Ross: I have them this morning. I also have, Mr. Bothwell, the form which every employee has to withdraw from the privilege—

Mr. Hanson: In view of Mr. Ross's statement that there is no such condition precedent, can't you drop that?

Mr. Bothwell: I want to have the application forms filed.

Mr. Hanson: I am prepared to take his word on that sort of thing.

Mr. Bothwell: It is only to settle those rumours.

Mr. McCloskey: Shall I proceed?

Mr. McCloskey called.

Before proceeding with Halifax, you asked for the cost of Canadian, mid-continent and Illinois crude at Sarnia, yesterday. Shall I read those or file them with the secretary?

Mr. Hanson: They should be read into the record.

Witness: For the year 1930, well price, Canadian crude oil, January, $2.20 per barrel; February, $2.13 per barrel; March, $2.05 per barrel; April, $2.08 per barrel; May, $2.10 per barrel; June, $2.08 per barrel; July, $1.95 per barrel; August, $1.95 per barrel; September, $1.95 per barrel; October, $1.89 per barrel; November, $1.88 per barrel; December, $1.95 per barrel.

Now, the mid-continent crude oil—

By Mr. Bothwell:

Q. Can you continue on through 1931? Can you continue with Canadian crude through 1931?—A. You asked me for 1930 yesterday. Then, you asked for 1931, but it was decided that 1930 would be sufficient.

Q. I do not think there was any decision to that effect, because we were expecting to get all those prices for 1931. Dr. Donnelly brought that up.—A. All right, I will get them for you for 1931. Would you prefer if I deferred that until then?

Mr. DONNELLY: No, just go ahead with that.

The WITNESS: Mid-continent, 36 gravity, January well price, $1.45 per barrel—January, 1930; February, $1.33 per barrel; March, $1.20 per barrel; April, $1.26 per barrel; May, $1.29 per barrel; June, $1.29 per barrel; July, $1.29 per barrel; August, $1.29 per barrel; September, $1.29 per barrel; October, $1.24 per barrel; November, $0.95 per barrel; December, $0.95 per barrel. Illinois crude oil, January, 1930, $1.75 per barrel; February, $1.68 per barrel; March, $1.60 per barrel; April, $1.63 per barrel; May, $1.65 per barrel; June, $1.65 per barrel; July, $1.65 per barrel; August, $1.65 per barrel; September, $1.65 per barrel; October, $1.61 per barrel; November, $0.88 per barrel; December, $0.80 per barrel.

By Mr. Bothwell:

Q. Mr. McCloskey, yesterday, just before we adjourned, we were dealing with the Halifax refinery, and you were going to give us the costs of refining.—A. Yes.

Q. I think, if I have the figures correct, you gave the cost at Halifax at 1.34 per gallon?—A. Per imperial gallon, yes.

Q. You averaged it over all of your refineries at 1.61 cents?—A. That is correct, sir.

Q. Now, you were just proceeding to tell us what you got out of that in the refinery in the different processes?—A. At our Halifax refinery, we make 43 different products, and I might state that at all of our refineries in Canada, we make 714 different products. I have grouped the Halifax yields slightly, although in arriving at costs, these will all have to be considered separately. They are as follows for the year 1930—

By Mr. Stanley:

Q. You are not going to read the 714?—A. If you desire, I will be very pleased to.

Mr. SPENCER: Put it in the record.

The WITNESS: The naphtha and gasoline group, 31.54 per cent, consisting of solvent naphtha, aeroplane spirits, varnoline, which is a paint base, V M and P naphtha, which is a varnish and paint maker's naphtha, ethyl gasoline, and premier gasoline. Refined oil 3.45 per cent, absorbent oil, .03 per cent, gas oil group 8.28 per cent, deisel oil group 2.92 per cent, bunker fuel oil group 49.12 per cent, black oils and pit tub grease .14. Asphalt .44, petroleum coke .79, loss and gas 3.29—I might state that is a total loss, that gas, that is in that figure. Total, 100 per cent.

By Mr. Bothwell:

Q. What is the value of those products?—A. Which products do you refer to?

Q. The products you get out of that gallon of crude oil. You state it costs you 1.34 cents to refine it, and you get those various— —A. Yes.

Q. —percentages of products.—A. You want the value of each product?

Q. Yes.

By Mr. Hanson:

Q. In the terms of cents per gallon?—A. In the terms of cents per gallon.

Q. You say it costs you 5.62 cents per gallon laid down at the refinery, and 1.34 cents to refine it, which makes about seven cents, or a little less than seven cents through the refinery.—A. Yes.

Q. What is it worth when it gets through? Have you got it in that way?—A. Well, the method of apportioning costs as outlined on the large statement that I gave you yesterday covering the Imperial Oil refineries, which showed a profit on total gasoline of 1.01 cent per imperial gallon, is what is known as the Federal Trade Commission plan of apportioning petroleum costs.

Q. A standard system of accounting?—A. Yes, sir, adopted by the Federal Trade Commission of the United States government. That plan is to apportion costs among the various products on the basis of their total realization, on the basis that the individual realization of each product bears to the total realization. Now, in the case of the Halifax refinery, we have the cost of crude, the cost of manufacturing as outlined yesterday. That refinery delivers products to various marketing divisions, such as St. John marketing division, covering New Brunswick, Halifax division, covering Nova Scotia, Montreal marketing division in part, the balance of the Montreal marketing division is supplied from the Montreal refinery. In the accounting each of those marketing divisions runs a separate account for gasoline as against other products; and the combined deliveries from all refineries in that particular division is put into the one account, the freight that is paid on the deliveries from those two refineries, say, and the cost in other divisions, brought from say three refineries, is put into the one account.

Now, in order to determine the cost of the products at any refinery, it is necessary to take those product accounts and tear them apart, and find out where every gallon of gasoline that went through that division came from, what the freight was on it from that particular refinery, as compared with another refinery, and net those back to each of the refineries. After you get that information, then you determine the costs of the various products. Now, while we have costs for all refineries, on the sheet that I submitted yesterday, we have not the cost at the individual refineries; and it would take us, I would say, about three months to get that information; to tear our books apart. If you wish to audit the books, as you propose doing, it will take a considerable staff of auditors a considerable length of time, more than three months I would say, because the Clarkson investigation for our company and the other companies in Ontario alone took six months.

Mr. Ross: Clarkson was all over the country.

The Witness: He did not cover western refineries, did he?

Mr. Ross: It was a Dominion inquiry.

By Mr. Bothwell:

Q. In the meantime, if you could give us the average realization of all your refineries on those different products, we could see how it compares in any event with findings that have been made in the States.—A. On all of the refineries of the company the realizations were as follows: gasoline direct, sold direct to dealers, 22.56 cents per imperial gallon; gasoline sold to jobbers 15.05 cents per imperial gallon, average 19.69 cents per imperial gallon. Refined oil—

Q. That covers distribution costs, too.—A. Yes, sir. You have to start at the final realization, deduct freights, marketing expenses and sales tax and average it back to the refinery and then make your allocation of costs among the products. Refined oil, 22.03 cents—that is the average on direct and indirect business—lubricating oils 43.79 cents per imperial gallon; fuel oils 4.61 cents per imperial gallon; asphalt 9.01 cents per imperial gallon; coke 3.42 cents per imperial gallon—it has been converted in those figures from a ton basis to an imperial gallon basis—grease 82.64 cents per imperial gallon—that has been converted from a pound basis to a gallonage basis. That includes in the grease the cost of what has—the cost of the compounding material that is purchased to incorporate with petroleum oils to make the grease—wax 47.12 cents per imperial gallon; candles $1.4388 per imperial gallon. That includes ingredients such as stearic acid, wicking and other materials used in the manufacture of candles.

Q. That have to be purchased outside?—A. That have to be purchased outside. The total average on all products is 12.75 cents per imperial gallon. That is equivalent to the gross sales value that I mentioned yesterday of $119,-171,253.71 on the total gallonage sold of 934,332,320 imperial gallons. Now, taking that as the basis and working each of those realizations that I have given you back until we eliminate everything but the profit, it shows the costs over Canada as follows—

Mr. HANSON: The refinery costs?

The WITNESS: The refinery costs, yes sir. The total gasoline direct and indirect business, 18.68 cents per imperial gallon, the profit is 1.01 cent per imperial gallon; refined oil otherwise known as kerosene, the cost is 20.88 cents per imperial gallon, and the profit is 1.15 cents per imperial gallon. I might mention that the reason for that cost being higher than on the gasoline, is that we have used the Federal Trade Commission plan of allocating costs, and we realize more for the kerosene than we do for gasoline.

By Mr. Bothwell:

Q. Is it possible, Mr. McCloskey, to get that back without a great deal of computation to the costs of those products at your refinery?—A. In which way do you mean?

Q. In those figures that you are giving us, you are including all distribution costs?—A. I have deducted all distribution costs, cost of freight and sales tax out of the gross realization in order to net those marketing figures back to the refinery costs.

Q. So that your 18.68 is your marketing figure at the refinery?—A. That is the combined marketing and manufacturing realization netted back to the refinery. That is what both departments spent in the way of costs to produce the gasoline on which they made 1.01 cents per imperial gallon. I will continue—

By Mr. Hanson:

Q. Just before that. That 18.68 cents per gallon for gasoline is not the cost at the refinery, that is the cost at the station where you sell it to the retailer?—A. Yes.

Q. Less sales tax and those other things you mentionned?—A. I shall be pleased to take these out for you.

Q. Wait a moment. I see the difficulty. With the 43 different products from a gallon of crude oil at the Halifax refinery, I visualized that difficulty yesterday. What is the cost at the Halifax refinery of a gallon of gasoline, premier brand, ready to put in the tank of my car?—A. As I said a few moments ago, we do not tear those costs down. We have it on the total.

Q. Then, you are up against an impasse. I thought you might be able to give it to us.

By Mr. Bothwell:

Q. If we are going to get any place with this committee, we will have to get that.

Mr. HANSON: Look at the magnitude of the work.

By Mr. Bothwell:

Q. There is no use discussing the manufacturing end separate for distribution. We came to the conclusion yesterday that we were not going to have them all mixed up together.—A. I would like to say this, if I may be permitted, that the way you are approaching this, you feel that you are going to get the cost of gasoline at the Halifax refinery, by taking the crude oil purchased during 1930, the manufacturing, and checking the cost of the many different products. Now, there is more than the cost of crude oil purchased during that particular year that enters into the product sold during that year.

By Mr. Hanson:

Q. The cost of manufacturing.—A. You will find this in many instances. It might not apply to Halifax, principally, but certainly it will apply for some years, probably not all years, but when you get the figure that you are trying to obtain, and it is based on purchases, on the cost of crude oil of 3,598,015 barrels that were run during 1930, you will find, if you take that amount of crude and multiplied it by the gasoline yields that I have given you, that you will not have the amount of gasoline that was delivered from that refinery. You have numerous unfinished stocks that are in the process of manufacture, that were purchased during previous periods. If you are on a declining market of crude, naturally the costs of those products have to be worked into 1930. It is not the crude alone, it is also the costs of the products in the process of manufacturing.

By Mr. Bothwell:

Q. Well, the situation is simply this: we might as well put it plainly — gasoline is selling very much cheaper in the United States that it is in Canada. —A. Yes, sir.

Q. You account for a part of that cheaper gasoline in the States by stating that there is a gasoline war on, or there is distress gasoline being sold?—A. Yes.

Q. We believe that we are paying too much for gasoline in Canada, and we are trying to get at the cost of producing gasoline in Canada. Now, unless we can get at that price, why we are not going to get any place. At the opening of this hearing, Mr. Ross stated that the National Petroleum News was an authentic publication?—A. Yes.

Q. For the oil industry?—A. Yes.

Q. I notice in its issue of January 20, 1932, right on the front page, it says: "At the present price of crude, gasoline should be 4½ to 5 cents a gallon, tank car in Oklahoma. This laudable price can be achieved by getting down our gasoline stocks." That is on the first page of the issue of January 20.—A. That is very true. It could be. That is very true, and the reason for it is when you get stocks down, the price will go up.

Q. They will go up to 4½ to 5 cents a gallon?—A. Yes, sir, and higher, if the stocks are down sufficiently of crude oil and gasoline.

Q. From your statement, we have gotten to 18.68 cents a gallon here in Canada?—A. That is correct.

Q. That is as close as we can get to this figure of 4½ to 5 cents unless we can get back to the refinery?—A. You will have to step up costs in the refinery in the mid continent field to Canadian points if you want to make a comparison with Canadian prices.

Q. Would it not be possible for you to make the computation and show what that gasoline actually cost you at your refinery?—A. Yes, I say it is possible, but it is going to take three months, as far as we are concerned, and if you want to put auditors in to check us up, I should say it will take six months with a staff of eight or ten auditors. That is the problem you are up against, and we will give you every assistance possible to get the information out. We do not work on the basis of cost in establishing the price of products, we—

Q. The oil companies in Canada are enjoying a considerable degree of protection right now. That may be all right, to give them that protection, but it seems to me that the onus is on the oil companies to justify requiring that protection?—A. I will be—

Q. Unless you can give us the figures, why I cannot see how we can say that those figures are justified.—A. Well, it will take, as I said, three months on our part, to get the figures, to tear all those marketing division accounts apart, and if you wish to obtain that, it is going to take longer, if you are to check them up with an auditor. If you wish to take our word for it, you can have it in three months. Now, I shall be very pleased to go into the reasons this morning, for the difference in the price structure in Canada and in the United States. I think that is information that the committee should have in fairness to us—

By Mr. Hanson:

Q. I agree with that. I think it is impossible for us in view of what he says, to pursue a long inquiry.

Mr. BOTHWELL: In the investigation before the Tariff board in the United States, they were able to find that information from the different refineries, and they made their report and showed definitely what the costs were at the different refineries.

Mr. HANSON: How long did that inquiry take?

Mr. BOTHWELL: In order to give you an illustration of what they found there, I will quote table 108:

> "Refined petroleum products: details of cost of refining, including cost of materials, for Atlantic coast refineries using 70 per cent or more domestic crude petroleum, 1929."

They show the quantity, unit cost, amount of expenditure, per cent of total, cost per barrel of crude and other charging stock, charging and blending stock, and they bring down their totals for each case, showing the cost per barrel in the different refineries. They deal with all the different refineries, gulf coast refineries, and so on. Then, coming to table 112, it gives the details of the cost of refining, including cost of materials, for California refineries; and they bring that down to the cost per barrel. That is at the refineries, and that is what we were hopeful of getting here.

Mr. DONNELLY: They do the same thing with regard to petroleum in each of the different places. They take table 112 and they give you the quantity of gasoline produced, including the amount that is put into it, the amount of gasoline they get out, the amount of kerosene, the amount of gas oil and fuel oil, the amount of lubricating oils and other products. Then they take the cost of each of those, and they show the average cost per gallon, the average cost per gallon of gasoline, excluding premium gasoline, 7·84, premium gasoline, 9·15, kerosene 5·85, gas oil and fuel oil, 2·62, lubricating oils 15·61 and other products 3·74, all refined products 6·02.

The WITNESS: It is perfectly possible to get that for the Imperial refineries. May I ask you how many pages are in that book you are reading from, Mr. Bothwell?

Mr. BOTHWELL: There are about a couple of hundred pages.

The WITNESS: How long would you say it took to compile that information on the part of the United States government?

Mr. BOTHWELL: Well it would take some time, no doubt.

The WITNESS: It is going to take some time in this case.

Mr. BOTHWELL: They considered all of the different refineries, and made a report on what happened in the different fields.

The WITNESS: That can be done for Canada.

Mr. HANSON: What did it cost to investigate in the United States. It must have cost a lot of money and taken a long time to do that.

Mr. STANLEY: Mr. Chairman, I was thinking that we should have our own expert accountant come before this committee and give evidence confirming, or otherwise, the statements that are made by Mr. McCloskey, not that I am doubting Mr. McCloskey's statement, but I think it is due to the public as well as to the companies, certainly to this committee, that we should have the opinion of our own expert accountant as to what is entailed in connection with the difficulties that are being discussed at the present time. That was the suggestion I was going to make, and I know it would, to me, as a member of this committee, be more satisfactory. It will give us an idea just exactly what proceedings we should take, rather than going on in the indefinite, haphazard way in which we are now.

Mr. DONNELLY: What I was going to say, Mr. Chairman, was this, while we grant it took this commission that studied this question in the United States some couple of years to compile this book. They investigated hundreds of refineries. But in the case of the investigation before this committee, it should not take an awfully long time if we took one refinery from each company. We have not got the time to go on with all the refining plants. We ask them to take one particular plant, and give us the statement as to the cost of producing a gallon of gasoline. We take the McColl-Frontenac the same way; we take the British American the same way. Let them take one plant and give us the actual cost according to those figures.

The WITNESS: Time will be relative in respect to that report on the United States refineries and the Canadian refineries, depending on the number of plants investigated in each instance. It is not going to take two years to investigate the Canadian refineries.

Mr. BOTHWELL: It did not take two years there at all. The resolution was passed in the United States March 3, 1931, and the report is dated November 30, 1931.

The WITNESS: Then, they put a large staff of accountants on that to get the information. It will also be relative in respect to the number of accountants that you put on to get the information, and we put on. Now, you will have to understand this, that all those marketing accounts will have to be torn apart; where we have a marketing division, for instance, in the west, such as Regina, that is supplied from Regina refinery and from Calgary refinery, and where that division gets its gasoline from and those numerous other things, under one heading, for the large stocks that they purchase; each of those accounts will have to be torn apart in respect to realizations, in respect to freight and other expenses that enter into each particular account; and all the accounts netted back to each of those refineries. It is something that we have never felt justified in doing from an accounting standpoint, on account of the expenses involved. It is an enormous expense to even enter it, apart from tearing it apart; but we will get the information for you, if you so desire. What you are trying to do is to determine how that 1.01 cents per imperial gallon profit is divided among the various refineries in Canada.

By Mr. Hanson:

Q. No, that is not what we are after. Actually we are after this; is the price to the consumer too high? That is the bald statement; and I appreciate the difficulties that you are visualizing to this committee. The committee ought to decide on a matter of policy. Do we want to do this in a proper way that will give us the correct figures, or do we want the country to spend that much money, or shall we trot along in the best way we can in this committee, with our accountant, who is checking up those companies in the best way he can. We must proceed one way or the other.

Mr. Bothwell: Well, the situation is this, as I see it. Taking the evidence given by Mr. Ross yesterday as to the amount of premium that was paid on stock in the company, if my computation is correct, up to 1915 when there was 100 per cent stock dividend paid to shareholders in Imperial Oil, the only dollars of premium that had come to the Imperial Oil is something less than five million dollars. He gave us the figure of 1912, 318,500 shares sold at a premium of 85, which means they were sold at $185, which would be $1,572,500; in 1913 there were 40,000 shares sold at a premium of $60. The premium would be $2,400,000. In 1914 there were 10,000 shares sold at a premium of $100. There would be $1,000,000 there, making a total of $4,972,500. The only justification for this stock being sold at a premium at any time was because of the fact that the Imperial Oil were making such tremendous profits that the stock commanded a premium. And now, the one per cent dividend was paid then, but if you trace it right back to the inception of the company, you find that the original shareholders would now have 128 shares of stock in Imperial Oil which is worth on the market at, we will say, $10—I do not know what the stock is worth—a considerable amount of money—on an investment of $100, and he is drawing his dividend from time to time. These men who came in up to 1915 are in much the same position. Their returns may not be quite so great. We know that we are paying in Canada a considerable lot more for gasoline than we are able to get gasoline for in the United States, whether it is on account of the distress gasoline or not. It seems to me that this is a matter for the oil companies themselves, before coming to the government and asking for Orders in Council, and asking for increases in tariff and fixing prices for different purposes, and that sort of thing, to furnish parliament, to furnish the people of Canada, with the information that justifies them in asking for protection. I do not believe it is up to this committee, through its auditors, to investigate, to spend months and money in order to get that. The oil companies will soon get that information if the protection that they are now afforded is withdrawn.

Mr. Hanson: What is the relation between the capitalization of this company and the cost of the products?

Mr. Bothwell: I cannot tell you.

Mr. Hanson: I do not know that there is any.

Witness: May I ask you a question, Mr. Bothwell, in respect to what you term the excessive profits made by Imperial Oil Companies in Canada as compared with the United States.

Mr. Bothwell: I did not say " excess profits ".

Mr. HANSON: He says excessive prices to the consumer.

WITNESS: That results in excessive profits.

Mr. HANSON: It may or may not.

Mr. BOTHWELL: You may be able to justify your position, I don't know, but we have gotten to the stage where we cannot find it.

Mr. DONNELLY: That is what we want you to do; we want you to justify your position.

WITNESS: It results, if not excessive profits, in a lower loss than would otherwise be experienced if you were making a loss. I would like to ask on the present basis of the comparison of the Canadian retail and the United States retail prices, how much do you figure the Canadian prices are out of line, taking those nine main cities that are demonstrated across Canada and the United States, for comparative purposes. How many cents per gallon do you feel the price is out of line?

Mr. BOTHWELL: Here is the situation, if I may illustrate it in this way. We understand right out in the city of Ottawa gasoline is being sold at three cents a gallon less than the Imperial Oil retail price, and in various places throughout Canada. We have had, for instance, the city of Kitchener, which somebody mentioned the other day. For the last two years you were able to buy gasoline in Kitchener at several cents a gallon less than the Imperial Oil were selling it. Now, these people must be making a profit if they are staying in business for two years. And if that is anything like right, even three cents a gallon on the consumption of gasoline in Canada of some 600,000,000 gallons, that would be an excess profit to my way of putting it, of something like $18,000,000.

WITNESS: May I ask you the quality of gasoline you are referring to?

Mr. BOTHWELL: I cannot give you the quality of gasoline, but I can make this statement, that motorists who have travelled through the United States and bought cheap gas, and who have driven from Ottawa out on the prairies through the United States, and bought gas all along the line, have never struck a place where they had to pay for gas until they got away west in the States as much as 15 cents a gallon outside the state tax.

WITNESS: You aware of the fact that we sell also a gas at three cents off the regular gallon price for a product of inferior quality.

Mr. BOTHWELL: I have not heard of any complaints from any motorists in connection with it.

WITNESS: You are aware of the fact that we sell at the various points—

Mr. BOTHWELL: The statement has been made that the Imperial Oil supply a better product than the gas that is being sold in those cities at those reduced prices. That has been contradicted by various people. I do not know what the facts are.

WITNESS: What I am getting at is this; we have retail price, and in making comparisons to retail prices in the United States and Canada, you use a price of our standard grade of gasoline; but we do sell gasoline at various points at 2½ cents below, from 2½ cents to 3 cents, which is the average in the past, below the regular price of our regular grade of gasoline. Now, there has been a lot of discussion about the price in western Canada, and in outlining those prices in western Canada, the retail prices have been used, and the statement has been made that the farmer is paying too much for his gasoline. Now, we do not charge the western farmer at the retail price; he gets the gasoline at the same price as we sell to the dealers.

Q. How does that happen?—A. We sell it direct to the farmer instead of through the dealer.

Q. How long has that been in effect?—A. For five years past.

By Mr. Hanson:

Q. That is in barrel lots?—A. Yes.

The CHAIRMAN: Before we proceed with this discussion, we were on the question of costs. Now we are getting over to the question of distribution, and I would say we had better stay with costs until we have exhausted that subject.

Mr. HANSON: I think we have exhausted it now. My own impression is this, that the Imperial Oil Company no doubt buy their raw material, refine it and manufacture and ship it by their distribution system as cheaply as it can be done in a businesslike manner. I do not think that the excessive cost enters very much into it, I am more concerned about the cost of distribution, because I consider that it is about 100 per cent over the manufacturing costs when it comes into the hands of the retail distributor. Whether that is an excess cost or not, I do not know; I think it is.

WITNESS: I should be very glad to go into that.

Mr. HANSON: We will go into that later. I am rather disappointed that we cannot get this stuff, but I do not see how we can get it.

By Hon. Mr. Ralston:

Q. Is it not possible to take the cost of wages, the overhead that enters into your refinery at Halifax, and figure out the cost at that plant?—A. Yes, but it will require this analysis.

Q. You mean to say you have never done it?—A. We have never done it. Our returns are figured on the return that we get from a barrel of crude.

Q. I am not talking about the cost; whether you sold it for much or little doesn't matter?—A. We never figure the cost.

Q. Your price is based on those costs?—A. No. I will be very glad to go into that and give you the full picture of it if you will give me time.

Q. Is that based on the competition, practically, of that?—A. It is based on crude oil, and it fluctuates with crude oil.

Q. That is cost, is it?—A. It is cost. If you want to tear the figures apart to find out what it is you may, but in establishing the prices currently they fluctuate with the fluctuation of the price of crude oil.

Q. That is the cost, then?—A. If the crude oil goes up—it has a certain amount of products in it, and whatever products will enter into the trade, as far as the requirements are concerned, that cost, in respect of the increase that we pay for crude oil, is apportioned over those products.

Q. Then it is cost?—A. It is cost.

Q. The price is based on cost?—A. But we do not figure the cost per gallon.

Q. You figure the cost of crude oil, which is the basis?—A. Naturally all prices must be worked back to some kind of a cost in order to make a profit, but we do not work it out currently to determine what the profit is.

Q. I am not talking about currently; I am talking about the basis for the price you are going to charge; it must be based first on some standard of cost?—A. It is.

Q. Which is fluctuating from time to time by the fluctuation of the price of crude?—A. That is right, sir.

Q. It would be quite often the situation where you would be selling gasoline which had been made from cheap crude at a price substantially in advance, perhaps, of gasoline which had been made from expensive crude?—A. And, conversely, we might be selling gasoline made from expensive crude during a period when cheap crude was available.

Q. I included them both in the question, so that the gasoline that is manufactured and in stock might go up in price, although it did not cost so much as other gasoline which is made of more expensive crude, because the price of crude had concurrently come down while you were disposing of your gasoline?—A. It all depends on the fluctuation of crude oil.

By Mr. Spencer:

Q. What percentage is made from by-products?—A. We do not make any by-products. We make 714 products, and there is not one of those that is a by-product that we cannot convert into something else.

By Hon. Mr. Ralston:

Q. If, in demonstration, you want to test how your Halifax refinery is doing in comparison with your Sarnia refinery, in the matter of costs, it would seem to me that one of the first things you would do is to try to figure out how much gasoline is costing in Halifax compared with Sarnia?

Mr. Hanson: He could give you the cost memo.

Hon. Mr. Ralston: Put into your tanks, ready to be sold, ready to put into tank cars afterwards.

By Mr. Hanson:

Q. You cannot do it by cents per gallon of gasoline; you do it by cents per gallon of crude oil?—A. That is right, sir, the total profit. The way it is worked is this. You have the price for crude oil; it costs you so much a gallon to manufacture; you get a certain price out of it per gallon, and your profit is the difference between the barrel of crude and the barrel of refined products.

By Hon. Mr. Ralston:

Q. But there must be a relative range of return on that gallon of crude oil as distributed among those different dealers?—A. Yes.

Q. Cannot you have those percentages, and use them on your refined and crude—wages, overhead, and any other expenses that enter into the manufacture, and say a gallon of gasoline based on that percentage costs how much at Halifax?—A. No; you know what you realize for each gallon that you sold out of that barrel of crude, and then apportion the cost on the Federal Trade Commission basis on the different products.

Q. I thought you said there was a general standard of relative value between those different products that go to a gallon of crude?—A. The relative value is the relative realization.

Q. But there must be a standard; it varies from time to time?—A. There is not any standard without working it back from the realization.

By Mr. Bothwell:

Q. You are talking about figuring costs from the standard of a realization basis?—A. Yes.

Q. There are three different methods of arriving at your costs; there is the sales realization method, the purpose method, and the actual method. Most of the larger refineries, in filling in the questionnaire, elected the sales realization method.

> "Definition of the different methods of allocating costs.—Three methods of allocating joint refinery costs to individual major products were considered. These are designated as follows:—
>
> 1. "Sales realization" method;
> 2. "Purpose" method; and
> 3. "Actual" method.

These methods may be described as follows:—

1. Sales realization method: Under this method, all groups of cost items are distributed among the several major products in the same proportion that the total sales of each of such major products bear to the sales of all products. In distributing costs in this way, no distinction is made between the cost of processes undertaken solely or primarily for the production of one or more specific products only (so-called "separable" costs) and the cost of processes not undertaken solely or primarily for any specific product or products (so-called "inseparable" costs). The cost of every process irrespective of its purpose or the number or character of its products is distributed in the same proportions over all products of the refinery. This is the only method that was possible for refineries failing to report costs by processes or departments, which constituted nearly one-half of all refineries reporting.

"For all refineries each group of cost items was computed, per unit of the several products, by this method, and for the principal Atlantic coast refineries the more detailed cost items were similarly computed.

"2. Purpose method: Economically, the purpose method of allocating costs among the several products is probably the soundest, but it involves extensive calculations. Under this method the cost of crude oil and other charging stock, together with certain operating costs, general and administrative expenses, and interest on investment, are first distributed according to the sales realization method; the remaining operating costs are then distributed according to the purpose for which they are incurred. The entire cost of operating a given department may, for example, be incurred for the purpose of separating or purifying and perfecting gasoline or for the processing of lubricating oils; when so incurred, it is charged to that product. Certain other departments may be operated with a view to two or more, but not all, of the finished products. In such cases the expenses of the department are distributed among these products according to proportions determined by the quantities handled. In determining to what products to charge the expenses of a given department, the commission, in applying this purpose method, used a uniform rule, based on the best judgment of its expert staff.

"It was found that this method could be applied only to the limited number of refineries making satisfactory reports of operating costs by processes or departments. For each such refinery the average unit costs of each principal product, by major groups of items, were calculated by the purpose method, while for the principal Atlantic coast and Gulf coast refineries similar computations were made in detail.

"3. Actual method: Most of the larger refineries and some of the smaller plants, in filling in the questionnaire themselves, allocated, as far as possible, the costs of the several departments according to their own conceptions of the purpose of the departments so treated. For some refineries this allocation conformed to the actual book-keeping practice of the companies reporting; for others, it was apparently made specifically for the questionnaire. The method of allocation differed for different companies to such an extent as to render it impossible to combine the figures for them into general totals and averages. However, a careful study was made of the actual allocating by the principal refineries so reporting, with a view to comparing such costs with the costs worked out according to each of the other two methods described.

"After careful consideration of each of the three methods described the sales realization method was adopted as the only one that could be used for all reporting refineries. So far as data were available, the results of the purpose method did not differ materially from those obtained under the sales realization method."

The WITNESS: Let me ask you a question, Mr. Bothwell. I think it will explain what you are trying to arrive at. Supposing you had a ton of ore, and that ore contained only gold, and in the purchase of the ore you paid a certain price. Naturally, when you refined it, you expected to make a profit on it. You could determine what was the cost of that gold, could you not?

Mr. BOTHWELL: I would say so.

The WITNESS: Supposing you had another ton of ore that contained copper, and you paid a certain amount for it, depending on the copper value in it, and you made a profit.

Mr. BOTHWELL: Never mind the profit.

The WITNESS: You could determine the cost of the copper, could you not?

Mr. BOTHWELL: You could determine the cost of your operation in making so many pounds of copper and so many ounces of gold.

The WITNESS: No, I am speaking of each separately—gold ore or copper ore. From the ore containing gold only, you knew what it cost to produce the gold. From the other ore containing copper, you knew what it cost to produce the copper. Now, take those two quantities of ore and mix them together and refine them; how do you determine the cost of the copper and the gold? Would it not be exactly the same as if they were separated?

Mr. BOTHWELL: I would figure this, that in my refining process I would find out what it cost me to produce so many pounds of copper out of those two tons of ore, and so many ounces of gold. I could get the cost, but the allocation of the cost would be different.

The WITNESS: But those ores are going through the plant at the same time, two tons, but it is combined in respect to gold and copper.

Mr. BOTHWELL: Do you say they cannot be determined?

The WITNESS: It is very difficult to determine. I say they can be determined, as in the case of various petroleum products, but you must get into the segregation of our accounts and tear them up and net them back to the refineries.

By Mr. Hanson:

Q. This is an argument on your general principle of the realization?—A. It is the principle laid down by the Federal Trade Commision of the United States in respect to determining the value of the products. They went through all this travail in 1915, and I have read volumes on it, and they finally got down to this method.

By Mr. Donnelly:

Q. Take the general list: 64-66. 375 end points cost at Chicago in tank car lots, 3·29 American gallon or 3·95 per Imperial gallon; yet in Fort William—which is an all water rate, it was selling in tank wagon lots for 19·45. We want to know how that 4 cents was stretched into 19?—A. Between Chicago and Fort William?

Q. Yes.—A. You are referring to tank car lots in both cases.

Q. Take them in tank wagon lots?—A. You cannot compare a tank car price with a wagon price, if you take the difference of freight into consideration.

Q. About 4 cents raised to 15?—A. If you take the difference of freight into consideration between a certain point and Fort William.

Q. No, I say that is all that has to be taken—the freight to Fort William—and you have 4 cents a gallon changed to about 15?—A. Yes, but the supply for Fort William is not from Chicago.

Q. But it can be taken from Chicago?—A. But it is not taken.

Q. But a man can go there and buy it in Chicago and ship it up there in boat-loads, and we want to know why that difference in price?—A. Are you familiar with the conditions in Chicago in respect to price structure, and the conditions in United States to-day?

Mr. McGibbon: Mr. Donnelly does not take that into consideration.

The Witness: I would be very glad to outline that whole situation to you in the United States.

By Mr. Donnelly:

Q. You can come back and answer that question; this is put up for sale in Chicago?—A. Are you in favour of patronizing boot-leg gasoline? That is what I would like to know.

Q. This has nothing to do with boot-leg gasoline?—A. Yes, it has. Every price in the United States to-day is subjected to boot-leg business.

Q. Do you mean that all the prices given in this catalogue to-day are boot-leg prices?—A. They are on a basis of boot-legging.

By Mr. Ganong:

Q. At St. Stephen, New Brunswick, before there was any tax on gasoline, we could buy it from the local merchant 5 cents cheaper than at Saint John?—A. Mr. McNeil will be very glad to go into all these figures with you. I do not profess to know anything about marketing conditions. Mr. McNeil will take care of that and discuss that question.

The Chairman: I think the committee said a while ago that they would like to hear Mr. McCloskey on the marketing situation.

By Mr. Irvine:

Q. The gasoline that is boot-legged, with the constant difficulties of boot-legging, how do you account for the fact that it is sold cheaper than through the regular channels?—A. I would like very much to turn to conditions that prevail in the United States, that have resulted in the present price structure. I do not think the committee understand the exact fundamentals involved.

Mr. Hanson: I think he should be allowed to do so, because it is very pertinent to the proposition he finally makes.

By Hon. Mr. Ralston:

Q. I am still talking on this question of cost of gasoline at the refinery; I would suggest that you base the cost of your many products that you manufacture there—the value of each product—on a certain day?—A. That is right, sir.

Q. The other is the percentage of each product that goes out of a gallon of crude oil?—A. That is right, sir.

Q. Cannot you take the prices, say, of December 31, 1931—I do not care what they are—of each one of those products, and treat that along with the percentage of each product which enters into a gallon of crude, and find the fraction of cost of the manufacture which should properly be charged against each individual product?—A. You are asking me, in that instance, to go on record in this committee on the basis of an estimated figure, because you take the price as of December 31. Now, that is only the condition applying that particular day, and I would not attempt to take a price on any particular day with the estimated yield from crude, which might be changed. The actual run of crude should go on record before that gasoline cost. I want to confine my cost entirely to the exact entries as they were in the books, both in respect to the cost of material and the realization from the products made from the crude oil run.

Q. I understand what you want to do, but I am only asking you what you can do, and I suggested here a very simple sum in arithmetic, for the purpose of illustration which can be reduced to reality from your books. I am assuming that a gallon of crude produces 30 per cent of gasoline, 60 per cent of X, and 10 per cent of Y. The gasoline on a certain day is selling for 20 cents; the X is selling for $1; the Y is selling for 50 cents. Cannot you take that 30 per cent, 60 per cent and 10 per cent, which are the proportions in volume of the gallon of crude, and apply them to the actual prices or values that day—call them anything you like—and arrive at a percentage which each one should bear on a basis of volume and value of the total manufacturing cost?—A. Yes, sir, and we outlined the Federal Trade Commission basis of allocating cost.

Q. Not quite; I am taking a particular day to which it only applies; where you and I differ is that you are suggesting you should not take December 31, and I am saying you can take December 31 if you want to?—A. I can if I want to, but I am not prepared to go on record to this committee with any estimated figures. I want to find the figures exactly and the entries as on our books in respect to yields of cost on the crude oil.

Q. Surely you have some general percentage of yields from crude?—A. I have them exactly.

Q. On December 31 you have an exact market quotation for each of those products?—A. That is correct.

Q. And you could have, if you want it, for the whole year, an exact quotation for those products?—A. Yes, sir, but that will have to be obtained by the segregation of those market runs that I have explained here, on account of one refinery delivering to a certain marketing division, and another refinery delivering to that marketing division.

Q. I am talking of the values at Halifax city, at your refinery?—A. But we supply more than Halifax city.

Q. But stick to that; we are talking of costs now?—A. You want to take one point within a small area like Halifax and base your cost of gasoline for the whole territory supplied by Halifax refinery on the Halifax cost. You cannot find the cost of the gasoline in our tanks at Halifax without determining what the net realization was from every gallon of gasoline sold at the points where it was delivered, less marketing expense, sales tax, freight from refinery to that market station, and the netted back to the refinery.

Q. That is not cost; that is profit or loss, whichever it might be?—A. It is on the basis of the Federal Trade Commission for determining cost.

Q. I am not talking of trade basis, I am taking the simple layman's basis of mathematics; there is no difficulty in taking the percentage of crude from a gallon of gasoline, and take that along with the prices or values at any particular day at the point at Halifax, and get from that some fair percentage which you ought to proportion in the matter of cost of those particular products, having regard to the total manufacturing cost at Halifax; I don't want any auditors at all?—A. If that method was followed, and you took certain prices at Halifax refinery on the basis of a stated price for gasoline, and you should add the freight to that cost, and make a delivery at some other point in the Maritime provinces——

Q. I am not adding anything; I am giving you the cost in tanks in Halifax?—A. You cannot get it that way.

Mr. HANSON: I struggled with that yesterday and found it impossible.

By Hon. Mr. Ralston:

Q. Put it in another way; would it not be possible for the refiner of gasoline at any refinery to determine the cost?—A. I want to make it plain in respect to that question. We are not willing to make any estimate on the cost of gasoline. We are willing to do everything possible, and will place our entire staff at your disposal to find the actual cost for any period that you want. But as far as estimated costs are concerned, we are not agreeable to put any estimated figures into the record.

Q. I am talking of actual cost; you have certain costs at Halifax—wages, overhead, materials that enter into it; I am trying to distribute that, per gallon, among the various products you produce there?—A. The difference between your opinion and mine is this: you feel that the actual cost can be arrived at on that basis.

Q. I feel that the actual percentage of cost can be?—A. And I feel that it is only an estimated figure. Now, take the market of crude on December 31, that would be at a certain price. You do not know what you are going to get out of that barrel of crude. If the market requirements change in respect of quantities, the changes are made in the yields of products from that crude, and it is only after you have sold the products for a definite period that you will know what you got out of the barrel of crude.

By Mr. Hanson:

Q. Does it affect the cost of laying down that gallon of gasoline in your tank?—A. It does, if there is a variation in the yield from the barrel of crude.

By Hon. Mr. Ralston:

Q. But you have a standard which tells us the different percentages that come from a gallon of crude?—A. Over the whole year.

By Mr. Irvine:

Q. Take the average for a year; couldn't you arrive at a price? It would not be speculative.—A. Would you please tell me this—will you take the responsibility that the market requirements of products for the month of January, we will say, will be the same and constant as it was for the previous year during which we obtained those yields?

Mr. Irvine: I do not think that is a fair question to ask this committee. There is a suspicion that the companies are charging too much for gasoline, and surely the companies ought to be required to furnish the actual figures of both cost and profit to this committee for the last year—after next year——

Mr. Hanson: That is what we started out to get.

Witness: I have explained——

Mr. Bothwell: Just one moment. You told us yesterday you put through your Halifax plant 3,598,015 barrels of crude oil.

Witness: Yes, sir.

By Mr. Bothwell:

Q. Now, surely it is possible to arrive at the cost of producing the products that you got out of those three million odd barrels.—A. I have made the statement several times this morning that it is possible.

By Mr. Hanson:

Q. I did not put it that way.

Witness: It is going to take time to get the figures. We do not keep our accounts, on account of the expenses involved, in such a way that you can work back to those figures; but the accounts can be torn apart and the information obtained, but it is going to take time.

By Mr. McGibbon:

Q. Have you not some idea of the cost of producing gasoline last year?—A. Only so much——

Q. You mean to say your books cannot reveal the cost?—A. They can.

Q. That is what we want to know.—A. It is going to take time to get it.

Q. If it is going to take three months to find that out, how did you base your profits on the last year? You did not know the cost of the thing, the selling price; how are you going to determine the profit?—A. We know the profit on a barrel of crude.

Q. If you do not know the cost of gasoline and the selling price, how do you know your profit?

By Mr. Hanson:

Q. The selling price is based entirely on the cost of crude?—A. That is right sir.

Q. That is the principle they have laid down?—A. Yes, sir.

By Mr. McGibbon:

Q. Last year's business is disclosed. You must know your cost or selling price. You know your profit. You have declared a dividend—they have put through a dividend.

Mr. HANSON: Mr. McCloskey has made the statement and I believe he is absolutely sincere in making the statement, that their selling price is based on the cost of crude.

Hon. Mr. RALSTON: Owing to the fluctuation in prices.

Mr. McGIBBON: No matter what it is based on.

The WITNESS: Currently, in the operation of the business, we make estimates as to what the profits—

By Mr. McGibbon:

Q. For the future?—A. For the future.

Q. I am talking about the past.—A. In those estimates—

Q. I am talking about the past.

Mr. HANSON: Let him make his statement.

The WITNESS: I am willing, as I explained here fifteen or twenty times this morning, to have auditors come to the office, and we will give you the costs you want, but it is going to take time. We will do everything possible that we can to help you to get that information that you are trying to obtain.

Q. I can quite understand your point. It is not taking any one plant or any one point. But I am talking about the business as a whole. Surely you do not need to get auditors to tell you that.—A. I have given you the cost on the total business yesterday, and the profit per gallon on gasoline, which was 1.01 cents per imperial gallon for the total gasoline sold by the Imperial Oil Limited in Canada.

By Hon. Mr. Ralston:

Q. Can you give us, following that—you have given the cost of a gallon of gasoline and naphtha, and other products, all over Canada. Would you give us the percentage of costs of each of those products that you incorporated into each of those products?—A. That is all revealed in the statement that I submitted yesterday in detail.

Mr. Hanson: Here is the statement.

The Witness: Showing the cost, and showing a profit of 1.01 cents per imperial gallon.

By Hon. Mr. Ralston:

Q. I want to see if you know what I am asking for.—A. Yes.

Q. In order to arrive at the cost of a gallon of gasoline, in order to find out whether you do make a profit of 1.01 on the gallon of gasoline.—A. Yes.

Q. You had to distribute your costs over gasoline and other products?—A. Yes sir, we did.

Q. I am asking what the percentages are, and what percentage of cost would be distributed to gasoline as compared with naphtha or compared with any other of those products. —A. It has been given in the exhibit that I submitted yesterday.

Q. If you will give me one of them. What percentage of cost is for gasoline? —A. I have not worked it out in percentages, but I can give it to you in total money.

Q. You have the total, I see.—Yes.

Q. Just simply taking those figures and working out the percentages of the total?—A. Yes.

Q. I want you to give us the cost of manufacturing the cost which you apportion to gasoline over the whole of Canada.—A. I will give you the percentage of every cost, marketing, sales tax, manufacturing and depreciation.

Q. I am talking about manufacturing.—A. Manufacturing—

Q. Will you find out from that total what percentage of your total costs you attribute to gasoline?—A. Yes, sir, exactly.

Q. Can you give me roughly what it is, whether it is 10, or 20 or 30 or 40 per cent?—A. Of the total cost of $112,844,062, $73,274,846 was charged to gasoline.

Q. What was the percentage, the volume of gasoline, as compared with other products?—A. Forty-two per cent.

Q. Then, forty-two per cent of volume cost about 50 per cent of the cost? —A. The whole cost—

Q. One hundred and fourteen, and seventy-six.—A. About 65 per cent.

Q. Forty-two per cent of the product bore 65 per cent of the cost?—A. Yes.

The Chairman: Now, gentlemen, we will proceed with a statement about conditions in the United States. I would say to the committee this, that it is rather delaying matters to ask the witness to go back to statements and explanations given yesterday, by gentlemen who came in to-day, and similarly, the next time we are here. It will delay matters further if we have to go all over the discussion of to-day. The evidence is being printed, and will be put into your hands. If members of the committee wish to discuss these matters, I hope they will do so in the light of evidence already given.

Mr. Smoke: Did not Mr. Ross go over an account of the American situation the other day?

The Chairman: No, he did not.

Mr. Bothwell: Before we leave this particular subject, Mr. Chairman, I think it is going to be up to the committee to decide what we are going to do in connection with these matters.

Mr. Hanson: That is exactly what I had in mind.

Mr. Bothwell: We have come to an impasse, as far as I am concerned.

The Chairman: Do you not think that that is a matter that should be discussed in the small committee?

Mr. Hanson: I do not think we ought to take the responsibility for that. I think the committee ought to decide. If it is going to cost thousands of dollars to the country, as has been suggested, to conduct this investigation in the way it has been suggested. As far as I am concerned, I am not going to take the responsibility of asking the country to spend the money to do that. I think the crux of the situation is not so much in the manufacturing end, as in the distribution end. There is where the burden is placed on the consumer, in my opinion. You could get a little picture of that from the Exhibit "A" of the McColl-Frontenac Company, where the difference between the refinery costs laid down at their refinery, as I understand it, and the cost laid down at the service station, was 100 per cent. There was approximately a spread of 100 per cent there. I think you will find that the crux of the situation is in the cost of distribution.

Mr. Ross: May I ask Mr. McCloskey a question? You say it would take three months or some such time to determine this question of costs. Would it take an auditor who sat down quietly with you very many days to establish what Col. Ralston has sought to establish? It is your conviction that you cannot absolutely correctly determine those costs?

Hon. Mr. Ralston: I want them approximately.

Witness: It depends to what extent the committee are willing to take our word in respect to the figures that we would submit to the auditor. If I were on a commission, I would not take the word of any company for it.

Mr. Donnelly: Hear, hear.

Witness: I would investigate every entry. That may be a little too conscientious. I would not sign a report as an auditor unless I did that.

Mr. Ross: We do not want this investigation to end with the feeling that the committee could not get the information they desired. They may not get it exactly in the form they desire; but it is a very very difficult position that Mr. McCloskey is in. I really think he can demonstrate the correct situation to the committee's chartered accountant.

Mr. Stanley: It all gets back to the point I raised. I quite understand Mr. McCloskey's position. He wants to be absolutely correct. If I were in his position I would take the same stand. Our accountant can meet Mr. McCloskey along with a smaller committee, and he can advise us in his evidence here before this committee, whether he can approximate the information which Col. Ralston was trying to elicit. If he can advise us that he considers that that would be valuable information, that would be approximately correct, that would be his view. He can tell us, on the other hand, that he would not do that, and it might be altogether erroneous. Then we would know where we are. I do not think we ought to bring a man in here and advise us in regard to the impasse—

The Chairman: At present our auditor is investigating the McColl-Frontenac.

Hon. Mr. Ralston: My impression was we had a small committee for matters of that kind. The possibilities of calculation and computation are matters for the accountant, and we ought to take advantage of the advice of the expert we have for that purpose. I would suggest the matter be not decided to-day, but allow the small committee to meet with our accountant, and talk the thing over with him and report back to the committee.

Mr. Hanson: And with Mr. McClockey?

Hon. Mr. Ralston: I have no objections.

Mr. Hanson: You are extending the functions of the sub-committee very materially.

Hon. Mr. RALSTON: A small committee will decide what method should be adopted. I am sure the accountant would want to hear Mr. McCloskey, and have a talk with him, and find out the information he has available.

The WITNESS: I shall be very glad to assist him in every way possible.

The CHAIRMAN: We have the experience of the Ontario inquiry in the same matter.

Hon. Mr. RALSTON: Let us go one better.

The CHAIRMAN: Quite. I think the evidence shows that the Ontario government started the investigation in the costs, and how long were they?

Mr. ROSS: Mr. Ferguson appointed the commissioner in June, 1925, and he made his report, as I recall, in January, 1926. But I do not think it cost such a tremendous amount of money; it was a very thorough investigation, and it went on from day to day. I ventured to tell this committee when I came here first that I did not think this was the right way to go at it. You put an actuary with Mr. McCloskey and you will get farther ahead.

Mr. MCGIBBON: If we can get this sheet confirmed, it is perfectly satisfactory to me. I would say from this sheet, their profits per gallon are very reasonable.

Mr. HANSON: Mr. McCloskey will tell you that those figures are the actual realization on their business for 1930.

The WITNESS: Yes, sir.

Mr. HANSON: That is based on the whole system, as he has outlined it.

Mr. MCGIBBON: It is only a fraction and a cent a gallon.

The WITNESS: 1.01 cent per imperial gallon.

The CHAIRMAN: I should like you to postpone the discussion until we have finished with this phase of the matter. We shall proceed now with the United States. Mr. McCloskey will give us the condition in regard to the industry in the United States.

The WITNESS: Now, for the benefit of the members of the committee who were not here yesterday, I would like to make this statement, that during 1930, the figures that I have submitted show that while we sold 392,079,889 gallons of gasoline at a profit of 1.01 cent per imperial gallon, the provincial governments collected five cents per gallon, or $19,603,994 during 1930, on the gasoline that we manufactured, or five times as much per gallon as our profit for the year 1930.

Mr. HANSON: Of course, it is generally understood that the provincial governments levy big burdens on this traffic, and the discerning public take it into consideration, and give you credit for it.

The WITNESS: Yesterday Mr. Ross submitted figures that he obtained from the Standard Statistics, and the figures for the Gulf Refining Company were not complete for the year 1931. There was a news item came through yesterday from New York reporting 1931, and I shall give you the figures for 1929, 1930, and 1931, for the Gulf Company. In 1929 the profit was $44,489,686; in 1930 the profit was $10,625,252; in 1931, there was a loss of $23,670,052. The Gulf company, as Mr. Ross states, is the Mellon company. Mr. Mellon, who is now the ambassador to London, is the principal shareholder of the company. I would also like to read before going farther, a clipping from the New York American of March 2, 1932. It is a news item which says, "Panhandle Refining stops buying crude. Panhandle Refining Company has notified crude oil producers from which it is purchasing oil that, effective yesterday, it will discontinue the purchase of daily runs, except the royalty oil from the company's leases, and reduce the refinery runs to the amount of oil which it has available. Roy B. Jones, president, states: 'We have considered every expediency in connection with the situation and operation of our plant at reduced capacity in order not to force products upon the market at prices below those generally prevailing. In spite of this, the prices of refined products continue below that at which we can realize our cost from a barrel of crude. On this account we have decided that from every standpoint it would be advisable for us to discontinue our purchases of daily runs as the price of refined products is not equivalent to the price of the crude.' "

Now, I would like to give you a little history of the Imperial in respect to construction of refineries, and the basis of selling prices before those refineries were constructed, and at the present time, and I will go back to the year 1915. At that time the Allied forces were badly in need of supplies of petroleum products. The late Mr. A. C. Bedford, who was at that time president of the Standard Oil Company of New Jersey, was requested by the government of the United States, and I believe on the representations of the Allied governments, to co-ordinate the petroleum industry in the United States, with the idea of obtaining supplies of petroleum products. At that time, we will all recall we had gasless Sundays, and only those that absolutely had to run cars were expected to do so. At that time the Imperial had one refinery at Sarnia, and it was supplying part of Manitoba and the greater part of Ontario. The balance of the territory in the west was supplied by purchases from the mid-continent field; in the east, by purchases in the mid-continent and in the Pennsylvania points. The Maritime provinces were supplied from Pennsylvania, being closer than the mid-continent area, but on about the same delivered price structure, they were competitive. Mr. Walter C. Teagle, who is at present the president of the Standard Oil Company of New Jersey, and who at that time was located in Toronto as president of the Imperial Oil Company, Ltd., between the years 1913 and 1918, was assisting Mr. A. C. Bedford in the co-ordination of the Petroleum supplies. He was not only president of the Imperial Oil Company Limited, but was also interested in the active co-ordination of the supplies of petroleum products at that time, particularly for the allied forces.

Now, at that time there was a shortage of refining capacity in the United States, and the first problem of the committee which Mr. Bedford organized and consisting of leaders of the industry in the United States was to get all the refining capacity into operation, and to co-ordinate the deliveries, so that they would be facilitated to the greatest degree and cross movements entirely eliminated. With the shortage of refining capacity, additional refining capacity had to be constructed, and Mr. Teagle realized that if refineries were constructed in Canada and crude run in Canada, it would release the gasoline that was being delivered, particularly in western Canada, so that it could be delivered to the allied forces; and that on the other hand, the construction of refineries in Canada, particularly in the east, would make available supplies of fuel oil and gasoline for delivery to the allied armies, and at the same time supply bunkers for troop transports that were operating between Canada and Europe. We then started the construction of refineries. Ioco was finished in January, 1915. In Regina, the construction was started in February 1916, and it was completed in September 1916. That was a record construction for a refinery of that size. Montreal was constructed at about the same time. January 2, 1916, the construction was started and in December 1916 the refinery was completed. The Halifax refinery was started December 1, 1916, and completed in February, 1918. I might say they supplied enormous amounts of gasoline and fuel oil, particularly diesel oil and bunker fuel oil for submarines and transports. The Calgary refinery was not constructed at that time. It was constructed at a later date, in 1922 and 1923.

When these refineries were constructed, our supplies of gasoline were discontinued from the United States into Canada, and diverted for war purposes. The price structure at that time was based on competition. We had mid-continent competition in western Canada. We had Pennsylvania competition in eastern Canada, also mid-continent competition in eastern Canada. That price structure continued until a situation arose where there was not any uniformity of price structure in the United States; and I will submit to the committee a statement which shows how the price structure varied in a couple of instances, which is representative of many instances between cities closely located in the United States. We will take Minneapolis and Detroit. In 1925 the Detroit price average for the year was higher by 1.25 cents per imperial gallon. I have converted those to imperial gallons. That is the Minneapolis price. In 1926 it had dwindled to .46 cent. In 1927 Detroit was higher by 3.32 cents, and in 1929 it was higher by .35 cent. Now, the supplies of gasoline for those two places were drawn from the mid-continent field at that time, and there is no reason why the differential between these cities should not have at least been uniform; but here we find a variation in one year of between 3.32 cents an imperial gallon, and .35 cent per imperial gallon.

By Mr. Bothwell:

Q. That is the retail price?—A. That is the retail price. Now, we come to the year 1929, and it is reversed. Minneapolis, the spread is ·55 cents per imperial gallon higher than Detroit. Now, I shall read this by months. I would like you to keep in mind that I am trying to show that these spreads have occurred without any reason for them. In January, 1930, Minneapolis was higher than Detroit by ·48 cents; February, 1·60 cents higher, and the next month it dropped to ·48 cents higher. That continued from March until September, 1930, when it increased to ·92 cents higher. Now, in the next half month, that is to say, the first half of September, and the next half month it jumped from ·92 up to 4·44 cents a gallon. In October Minneapolis was higher by 4·02 cents; in November up 5·18 cents; in December up 5·40; in January, 1931, a difference of ·79 points per imperial gallon. In February it jumped to 2·71 cents; in March it went down to ·79, and April, May and June, it was ·48, all without any reason whatever that can be justified by the base price of crude or gasoline. The spread jumped from ·48 cents in July up to 3·26, in August and up to 4·66 cents in September. Then, the situation reversed, and Detroit became higher than Minneapolis, it was up ·56 cents in September, in October up 1·32, in November up ·32—these are all cents per Imperial gallon—December ·12. In January, 1932, Detroit was higher than Minneapolis by ·03 cents, and in February of this year it was reversed, and Minneapolis was 2·16 cents per gallon higher than Detroit. Now, we will take Helena, Montana, and Butte, Montana. They are 73 miles apart, and here are the differentials; 4·24 cents in 1925, 1·36 cents in 1928—I am just taking out certain months to save time. In 1930, July, 5·52 cents; in September it was increased to 6·60 cents, and they are only 73 miles apart.

By Mr. Hanson:

Q. Do you say there was no reason for it?—A. No reason for it. I cannot conceive of any reason, and I do not believe anyone else can conceive of any reason, why two towns less than 73 miles apart should be 6·60 cents per imperial gallon different. Then they dropped to 4·20 cents per imperial gallon in 1930,—October.

By Mr. McGibbon:

Q. May I ask a question just for information?—Who sets the retail price? —A. I will explain that later, if you do not mind. In November, 1930, it was 1·50 cents difference in spread. Then in April, 1931, the spread was 2·56 cents. In September, 1931, the spread was 4·44 cents,—it jumped almost two cents between April and September, without any change as far as the respective relative base prices were concerned from the supply points. In December, it was 3·72 cents; in February, 1932, 3·60 cents. Now, I would like to file with the committee those figures as an exhibit, and I would like also to file a series of four charts that we have compiled showing how those prices in the United States have varied.

By Mr. Stanley:

Q. Were there not various opportunities for bootlegging in the various states?—A. That is exactly what I am coming to. Now, what we contend is that there are two conditions in the United States that have resulted in this situation, one is over-production, and the other, and the most serious, is the gas tax evasion, and I would like to deal with that in such a way that the members will understand exactly how the tax is evaded. If there is any question in your mind as to how they evade it without being caught, I would be very glad to explain it to you. We must keep this in mind, that in order for any state to collect gasoline tax, it must have a record of the amount of gasoline delivered to dealers within a state. We will take two states, for instance, Pennsylvania and New York. There is no co-operation between the state governments in respect to reporting of deliveries from Pennsylvania to pumps in New York or on the part of the New York state to pumps in Pennsylvania. Therefore, gasoline can be delivered over the line from Pennsylvania into New York and sold to a dealer, and he can put it in his tank and the government of the state in which he is has no record of it. Conversely, it can be delivered from the other state to a dealer in another state across the boundary. I will read an article—it is very short—showing how this is operated:—

" Evasion of gasoline taxes has demoralized the price structure in the United States. This can be established by evidence of officials of marketing companies.

" The gasoline tax has been converted into a subsidy for the gasoline racketeer. Instead of paying this tax into the state treasuries the evader puts the greater part of it in his pocket. It is estimated that he defrauded the States of the American Union of $40,000,000 last year.

" The evader's practice is to cut the price and so draw a larger trade and swell his dishonest gains. For instance, in a state where the tax is five cents the evader has a margin of, say, seven cents against a margin of, say, only two cents for the dealer in honest gasoline. The evader cuts the price by probably two cents and thus is in the position of selling at two cents below the regular market and yet having a profit of five cents. The dealer in honest gasoline, if he meets the price as he must do to continue in business, has to carry on at a loss. The refiner has to support the honest dealer. He can not let his outlets go out of business and so the price cut comes back to the refiner who will probably reduce the tank wagon price two cents to meet the situation. But as soon as he does this the evader has another two-cent margin to work on and so cuts again. In this way prices have see-sawed down to bankruptcy levels.

" W. R. Boyd, Jr., executive vice-president of the American Petroleum Institute, before Ways and Means Committee of the House of Representatives, Washington, February 2, 1932, made the following statement when opposing a federal tax on gasoline:—

" ' Excessive gasoline tax rates have developed everywhere a system of evading the payment of the tax which has caused heavy tax losses to the states and demoralized the merchandizing of gasoline. The high gasoline tax has proved the most expensive tax in history.

By this is meant that the larger and broader result of the imposition of these exorbitantly high rates has been demoralization and threatened destruction of an industry through unfair competition from a far-reaching system of gasoline bootlegging and racketeering which defrauds the states, corrupts wherever possible governmental officials and industrial employees, and generally breaks down the state law. In its operations, gasoline taxation has not only permitted but encouraged theft, fraud, intimidation, violence, kidnapping, blackmail, collusion, bribery, corruption, conspiracy, perjury, misfeasance, and malfeasance.' "

Mr. HANSON: It is worse than prohibition.

"In a recent circular letter to members of the American Petroleum Institute, Mr. Boyd said: 'Increasing gasoline taxes are invoking the law of diminishing returns and are killing the goose that lays the golden eggs. They have put a premium on tax evasion and made gasoline bootlegging more profitable than legitimate business. The rapidly growing gasoline tax is fast becoming the greatest tax scandal in history.' "

How the Tax is Evaded

In a bulletin entitled "The problem of excessive gasoline taxes, with their consequences of tax evasion, lost revenue, demoralization of prices, and disaster to honest dealers," recently issued by the American Petroleum Institute, methods employed by tax evaders are explained as follows:—

"Gasoline shipped into Pennsylvania from New Jersey pays no tax New Jersey. A truck bearing it breaks no law when it boldly proceeds into Pennsylvania. It breaks no law when it unloads its cargo at any one of the 28,000 filling stations in the state. The filling station breaks no law when it receives this gasoline. It is only when the gasoline is resold or used that the tax becomes payable.

"To this point every step in the transaction is immune from interference by the state, because of its interstate commerce character. If this truck had been discovered by a Pennsylvania revenue officer entering the state, he could not have prevented it. By following it to its destination he could have learned who received it; but the driver, aware that he was followed, would probably have led the officer a wild goose chase and, unless he could shake off his pursuer, would likely have driven on, out of the state, without unloading. Meanwhile a score of other truck loads could have slipped in. But supposing the first truck had been followed to the place where it unloaded; then the filling station which received it would simply have paid the tax on that particular load, and the state would have had no case against it. While the revenue official was thus occupied, the other nineteen trucks might have hauled their cargoes, unobserved, to as many other filling stations, and unloaded. The receivers of these other cargoes, not being licensed distributors under the Pennsylvania law, would have no responsibility for making reports, not be required to pay the tax until after they had sold the gas; and the state revenue organization provides no machinery to compel this. In some states, on the contrary, the ultimate distributor, that is, the filling station, must report its sales and pay the tax. In such cases, the tax is evaded by the simple process of reporting and paying taxes on only some fraction of the monthly sales. Pennsylvania formerly had such a law; and the revenue authorities found at least one-fourth of the filling stations making either false reports or none at all. The point is that the limitations imposed on the state's authority by the interstate commerce provision are such that a high tax, with its incentive to evasion, can only be effectively enforced by an army of revenue agents so numerous and expensive as to be beyond consideration.

"There is a widespread but mistaken idea that tax-evading movements across state boundaries are particularly encouraged when the tax rate is much higher on one side than on the other. This is not the case. If the tax were 5 cents on both sides, a truck could haul a cargo of tax free gasoline from New Jersey to Pennsylvania, deliver it without interference, and then haul back another load of tax free Pennsylvania gasoline into New Jersey, and likewise deliver it without breaking any law or being liable for a tax under either state's law."

I might say the reason it pays no tax is that the party delivering it by truck makes a declaration in New Jersey that it is for export, and is not subject to tax; it is not reported to anyone.

"Gasoline cannot be labelled with any identifying mark attesting its origin or quality. The 'original container' is liable to become, not a guarantee of character, but cover for fraud. This is another great practical difficulty about enforcing gasoline tax laws.

"The honest merchant of gasoline, honestly paying his taxes, is hopelessly at a disadvantage in competing with the successful evader. The latter, having a differential in his favour of the amount of the tax, may cut the price below any figure the honest dealer may meet and still have a good share of his winnings to use in corrupting highway patrolmen, revenue officers and whoever else may be useful in his scheme. All these things have been done in many states, and on a scale so great as to make gasoline bootlegging ruinous alike to the morale of state administrations and to the price structure of the industry. The high tax becomes a subsidy to organized lawbreaking.

"To what extent tax evasion has developed is not at all popularly realized and even within the industry there is apparently only an adequate conception of the gravity of the situation.

"Oklahoma's experience is peculiarly deserving of consideration. Crude oil being plentiful in Oklahoma, many makeshift 'skimming plants' have been set up at very little expense, which extract gasoline and distribute it by trucks which run by night and sell it to filling stations, nobody reporting the sales, nobody paying the tax.

"A distributor might organize to do business, say in Philadelphia; build a tank, and import gasoline from California or Texas. He would readily develop a lucrative business by selling below his assumed cost and keeping the tax; giving him a handsome profit. On a business of 4,000,000 gallons, which could be quickly obtained under such conditions, he would have a possible profit of $120,000 a month; at the end of three months he could close up and disappear. Even if his first investment had to be sacrificed, it would have been only about $75,000; his net profits would be near $300,000. Precisely that kind of thing was done, and done extensively, during the big bootlegging epoch in Pennsylvania.

"Oklahoma and Pennsylvania, being oil states, are wise to the tricks of the trade. Nebraska doesn't produce a barrel of oil; but bootlegging and tax evasion there became so serious that the last legislature made a special appropriation to fight them. For years Nebraska had a tax of only 3 cents, and no serious collection troubles; then the tax was raised to 4 cents, and the trouble started immediately. Trucks bring gasoline into the state, all the way from Oklahoma, paying no taxes, and selling to dealers who likewise pay none. Further, people living on the borders of Nebraska drive over into the adjoining state, buy gas for export, without tax, and haul it home, where it goes into the reservoirs of complaisant filling station operators for distribution.

"New Jersey has become a hot bed of tax evasion practices, and in Michigan conditions have reached the point where millions are being stolen by evasion.

"Louisiana for five years had a 2-cent tax, raised it to 4, and then to 5. As a result, enormous quantities of gasoline are trucked into the state from Texas, and distributed by crooked dealers, paying no tax. A report from one Louisiana town shows how rapidly this sort of thing grows, when once started. Careful investigation a few months ago showed that about 60,000 gallons was being brought into this town monthly, and sold without paying the tax. That was bad enough; but within the past few weeks a further investigation at the same place showed that the volume of this business had grown to 250,000 gallons a month. One Organization was regularly using 8 or 9 trucks every night, hauling in bootleg gasoline. Like conditions are reported from Mississippi, which also has a 5 cent tax, and they are constantly getting worse. New Mexico, with a 5 cent tax, has a constantly increasing share of its gas brought in from Texas panhandled by motor truck and sold free of tax.

"From all parts of the country come reports of a particularly vicious practice whereby the motorist and the state are victimized. Whenever the tax gets high enough to justify crooks in taking a chance, they mix 25 or 30 or 40 per cent of gasoline with kerosene, naphtha, or even fuel oil—all of which are tax free—and sell this mixture as regular gasoline. People whose consciences permit them to this sort of thing commonly stop at nothing, and so this kind of motor fuel almost always appears as of 'special grade.' And it deserves the label.

"Ernest N. Smith, Executive Vice-President of the American Automobile Association, in an article in the *Manufacturer's Record*, Baltimore, Md., says:—

> 'It is safe to say that in 1931 gasoline bootleggers stole $40,000,000 of money paid by highway users.'

"Continuing, Mr. Smith described methods employed by gasoline tax evaders as follows:—

> 'There are two classes of violators, the professional who operates on a big scale, and the amateur who seeks to augment the family income by pilfering the gas tax. But let's adopt the policy of the government in enforcing the dry law and deal with the big fellows first. All the ingenuity at the command of men who deal in millions is employed. They operate under dummy corporations using wildcat refineries which receive and market fuel without reporting it for tax purposes. They set up paint factories and other plants to show records of gas sold for tax free purposes but which is actually sold for motor vehicle use and the tax pocketed. They move gasoline in tank cars labelled 'distillate' which is non taxable, or blend low grade gasoline with tax free naphtha or kerosene and after selling it pocket the tax. They juggle gallonage figures on receipts, forge documents, conspire with railroad employes to report shipments improperly and corrupt state officials or take them into partnership. They buy gasoline in a state 'for export' purposes, tax free, and then manoeuver the shipments so that the gasoline is returned to the same state. They buy gasoline in a state where the tax is low, pay it, and then sell the fuel in a state where the tax is high. These two latter methods are probably the most commonly employed in this gigantic racket.

'Another of the most common forms of evading the tax is for a filling station operator to conduct his business in a bona fide manner and then sell out and seek new fields when the time comes to report tax collections to state authorities. As the tax in most cases amounts to from five to ten times the amount of what would have been a legal profit during the period of operation, the dealer has an incentive to pull up stakes. It is only fair to the states, however, to point out that officials are wise to this form of evasion and instead of allowing from 60 to 90 days for tax reports as formerly, have as a general rule narrowed the time margin for such reports. Take the 'for export' phase of the racket, for example. A tanker loads up with gasoline in Pennsylvania 'for export' to a nearby state. Then after plying the Delaware river or nearby waters for a few hours, the tanker is headed into Pennsylvania under cover of darkness and unloads. If the cargo was 10,000 gallons, the three cent tax in Pennsylvania means a profit of $300.

'Virtually the same methods of operation are employed in using tank cars or trucks. The tank car is filled with gasoline 'for export' to a nearby state and upon reaching the destination, with the aid of some unscrupulous railroad employee eager to make a dollar or sometimes through regular channels, is reconsigned to the state where the shipment originated. The fuel is then sold and those in on the deal pocket the tax.' "

Now, I might state, I will file that as an exhibit, with an editorial from the "Saturday Evening Post," of December 26, 1931, and a paper entitled "Gasoline Tax Evasion Problem, and how it is being met in Pennsylvania," which was read at the American Petroleum institute meeting in Chicago, November 10, 1931, by Mr. Clyde L. King, secretary of revenue, commonwealth of Pennsylvania, Harrisburg, and also a paper read at the same meeting by Mr. William A. McAfee, of the Standard Oil Company, Ohio, on "Legislative safeguards against gasoline tax evasion." I just want to state this, in concluding, that at that meeting, Mr. McNeil and I had a talk with the director of sales of one of the largest marketing companies in the United States, and he said that the situation had got to the stage where the straight line companies, or the regular line companies, were having extreme difficulty in selling gasoline to dealers, for the reason these dealers would be approached by racketeers and told that if they cared anything for their lives, they would discontinue the purchase of gasoline from the regular line companies, and that a truck would call around at a certain time to supply them in the future, and that they would get their supply from that source thereafter, and they would tell them at what price to sell it, and how much tax to pay to the state governments.

I just want to say this, that this condition that I have outlined in respect to demoralization in the States, has made it necessary for us to discontinue the competitive price structure as a basis of selling prices in Canada, and regulate our prices in Canada on the fluctuations in the prices of crude oil refined at our refineries.

If I had time to-day I would be very glad to go into dumping in respect to this feature of it, but I have not the time. I presume the objections are in respect to protection from such dumping of gasoline into Canada.

Mr. Ross: On the subject of dumping, may I ask Colonel Ralston a question. You asked me about dumping, and fixing the value on the entry. You asked me if that had been done by Orders in Council, and the dates of the Orders in Council. They were not Orders in Council. I tried to get Mr. Breadner here this morning—they were done under the Customs Act.

By Hon. Mr. Ralston:

Q. By the Minister?—A. No.

Q. I thought under the Customs Act the Minister was the one who fixed prices.

Mr. Ross: It was Mr. Blair who established valuations.

Q. Of the Department of National Revenue?—A. Yes.

Q. Have you a record of the dates?

Mr. Ross: I have one here, and I can give that to you. We are billed to appear in Regina on Tuesday and Wednesday.

Hon. Mr. Ralston: A one night stand?

Mr. Ross: We are billed to appear in Edmonton after that. We will be available next week, because we are sending out some other officials to Regina, unless the Saskatchewan Government get us into court. I understand, Mr. Chairman, there will be a small committee who will act with the accountant and Mr. McCloskey.

The Chairman: We will meet again as soon as possible, at the call of the chair.

Committee adjourned to meet at the call of the chair.

APPENDIX

COMPARISON HELENA AND BUTTE, MONTANA, RETAIL GASOLINE PRICES

—	Helena	Butte	Butte Higher
1925	28·64	24·40	4·24
1928	26·88	25·52	1·36
1930—			
February	26·40	26·40	......
July	27·00	21·48	5·52
September	27·00	20·40	6·60
October	24·60	20·40	4·20
November	21·90	20·40	1·50
1931—			
April	21·60	19·04	2·56
September	22·44	18·00	4·44
December	22·80	19·08	3·72
1932—			
February	21·60	18·00	3·60

COMPARISON MINNEAPOLIS AND DETROIT RETAIL GASOLINE PRICES

PANHANDLE REFINING STOPS BUYING CRUDE

N.Y.A., 3/2/32.

Panhandle Refining Co. has notified crude oil producers from which it is purchasing oil that, effective yesterday, it will discontinue the purchase of daily runs, except the royalty oil from the company's leases, and reduce the refinery runs to the amount of oil which it has available. Roy B. Jones, president, stated:—

"We have considered every expediency in connection with the situation and operation of our plant at reduced capacity in order not to force products upon the market at prices below those generally prevailing. In spite of this, the prices of refined products continue below that at which we can realize our cost from a barrel of crude.

"On this account we have decided that from every standpoint it would be advisable for us to discontinue our purchases of daily runs as the price of refined products is not equivalent to the price of the crude."

—	Minneapolis per Imperial gallon	Detroit per Imperial gallon	Minneapolis higher than Detroit	Detroit higher than Minneapolis
	$ cts.	$ cts.	$ cts.	$ cts.
1925	22 56	23 81		1 25
1926	24 54	25 00		0 46
1927	17 33	20 65		3 32
1928	19 99	20 34		0 35
1929	21 11	20 56	0 55	
1930—				
January	21 84	21 36	0 48	
February	20 81	19 21	1 60	
March	19 44	18 96	0 48	
April	20 20	19 72	0 48	
May	20 64	20 16	0 48	
June	20 64	20 16	0 48	
July	20 64	20 16	0 48	
August	20 64	20 16	0 48	
September 1-15	19 40	18 48	0 92	
September 16-30	18 00	13 56	4 44	
October	17 58	13 56	4 02	
November	16 80	11 62	5 18	
December	16 80	11 40	5 40	
1931—				
January	18 14	17 35	0 79	
February	18 24	15 53	2 71	
March	16 15	15 36	0 79	
April	15 04	14 56	0 48	
May	14 64	14 16	0 48	
June	14 64	14 16	0 48	
July	14 64	11 38	3 26	
August	14 64	9 98	4 66	
September	13 49	14 05		0 56
October	12 48	13 80		1 32
November	13 48	13 80		0 32
December	13 68	13 80		0 12
1932—				
January	13 77	13 80		0 03
February	15 96	13 80	2 16	

GASOLINE TAX EVASION IN THE UNITED STATES

Evasion of gasoline taxes has demoralized the price structure in the United States. This can be established by evidence of officials of marketing companies.

The gasoline tax has been converted into a subsidy for the gasoline racketeer. Instead of paying this tax into the state treasuries the evader puts the greater part of it in his pocket. It is estimated that he defrauded the States of the American Union of $40,000,000 last year.

The evader's practice is to cut the price and so draw a larger trade and swell his dishonest gains. For instance, in a state where the tax is five cents the evader has a margin of say seven cents against a margin of, say only two cents for the dealer in honest gasoline. The evader cuts the price by probably two cents and thus is in the position of selling at two cents below the regular market and yet having a profit of five cents. The dealer in honest gasoline, if he meets the price as he must do to continue in business, has to carry on at a loss. The refiner has to support the honest dealer. He cannot let his outlets go out of business and so the price cut comes back to the refiner who will probably reduce the tank wagon price two cents to meet the situation. But as soon as he does this the evader has another two-cent margin to work on and so cuts again. In this way prices have see-sawed down to bankruptcy levels.

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revenue organization provides no machinery to compel this. In some states, on the contrary, the ultimate distributor, that is, the filling station, must report its sales and pay the tax. In such cases, the tax is evaded by the simple process of reporting and paying taxes on only some fraction of the monthly sales. Pennsylvania formerly had such a law; and the revenue authorities found at least one-fourth of the filling stations making either false reports or none at all. The point is that the limitations imposed on the state's authority by the interstate commerce provision are such that a high tax, with its incentive to evasion, can only be effectively enforced by an army of revenue agents so numerous and expensive as to be beyond consideration.

"There is a widespread but mistaken idea that tax-evading movements across state boundaries are particularly encouraged when the tax rate is much higher on one side than on the other. This is not the case. If the tax were 5 cents on both sides, a truck could haul a cargo of tax free gasoline from New Jersey to Pennsylvania, deliver it without interference, and then haul back another load of tax-free Pennsylvania gasoline into New Jersey, and likewise deliver it without breaking any law or being liable for a tax under either state's law. Gasoline cannot be labeled with any identifying mark attesting its origin or quality. The 'original container' is liable to become, not a guarantee of character, but cover for fraud. This is another great practical difficulty about enforcing tax laws.

"The honest merchant of gasoline, honestly paying his taxes; is hopelessly at a disadvantage in competing with the successful evader. The latter, having a differential in his favour of the amount of the tax, may cut the price below any figure the honest dealer may meet and still have a good share of his winnings to use in corrupting highway patrolmen, revenue officers and whoever else may be useful in his scheme. All these things have been done in many states, and on a scale so great as to make 'gasoline bootlegging' ruinous alike to the morale of state administrations and to the price structure of the industry. The high tax becomes a subsidy to organized lawbreaking.

"To what extent tax evasion has developed is not at all popularly realized and even within the industry there is apparently only an inadequate conception of the gravity of the situation.

"Oklahoma's experience is peculiarly deserving of consideration, Crude oil being plentiful in Oklahoma, many makeshift 'skimming plants' have been set up at very little expense, which extract gasoline and distribute it by trucks which run by night and sell it to filling stations; nobody reporting the sales, nobody paying the tax.

"A distributor might organize to do business, say in Philadelphia; build a tank, and import gasoline from California or Texas. He would readily develop a lucrative business by selling below his assumed cost and keeping the tax; giving him a handsome profit. On a business of 4,000,000 gallons, which would be quickly obtained under such conditions, he would have a possible profit of $120,000 a month; at the end of three months he could close up and disappear. Even if his first investment had to be sacrificed, it would have been only about $75,000; his net profits would be near $300,000. Precisely that kind of thing was done, and done extensively, during the big bootlegging epoch in Pennsylvania.

"Oklahoma and Pennsylvania, being oil states, are wise to the tricks of the trade. Nebraska doesn't produce a barrel of oil; but bootlegging and tax evasion there became so serious that the last legislature made a special appropriation to fight them. For years Nebraska had a tax of only 3 cents, and no serious collection troubles; then the tax was raised to 4 cents, and the trouble started immediately. Trucks bring gasoline into the state, all the way from Oklahoma, paying no taxes, and selling to dealers who likewise pay none. Further, people living on the borders of Nebraska drive over into the adjoining state, buy gas for export, without tax, and haul it home, where it goes into the reservoirs of complaisant filling station operators for distribution.

"New Jersey has become a hotbed of tax evasion practices, and in Michigan conditions have reached the point where millions are being stolen by evasion.

"Louisiana for five years had a 2 cent tax, raised it to 4, and then to 5. As a result, enormous quantities of gasoline are trucked into the state from Texas, and distributed by crooked dealers, paying no tax. A report from one Louisiana town shows how rapidly this sort of thing grows, when once started. Careful investigation a few months ago showed that about 60,000 gallons was being brought into this town monthly, and sold without paying the tax. That was bad enough; but within the past few weeks a further investigation at the same place showed that the volume of this business had grown to 250,000 gallons a month. One organization was regularly using 8 or 9 trucks every night, hauling in bootleg gasoline. Like conditions are reported from Mississippi, which also has a 5 cent tax, and they are constantly getting worse. New Mexico, with a 5 cent tax, has a constantly increasing share of its gas brought in from Texas panhandle by motor truck and sold free of tax.

"From all parts of the country come reports of a particularly vicious practice whereby the motorist and the state are victimized. Whenever the tax gets high enough to justify crooks in taking a chance, they mix 25 or 30 or 40 per cent of gasoline with kerosene, naphtha, or even fuel oil—all of which are tax free—and sell this mixture as regular gasoline. People whose consciences permit them to do this sort of thing commonly stop at nothing, and so this kind of motor fuel almost always appears as of 'special grade'. And it deserves the label!"

Ernest N. Smith, Executive Vice President of the American Automobile Association, in an article in the Manufacturer's Record, Baltimore, Md., says:—

"It is safe to say that in 1931 gasoline bootleggers stole $40,000,000 of money paid by highway users."

Continuing, Mr. Smith described methods employed by gasoline tax evaders as follows:—

"There are two classes of violators, the professional who operates on a big time scale, and the amateur who seeks to augment the family income by pilfering the gas tax. But let's adopt the policy of the government in enforcing the dry law and deal with the big fellows first. All the ingenuity at the command of men who deal in millions is employed. They operate under dummy corporations using 'wildcat' refineries which receive and market fuel without reporting it for tax purposes. They set up paint factories and other plants to show records of gas sold for tax free purposes but which is actually sold for motor vehicle use and the tax pocketed. They move gasoline in tank cars labeled 'distillate,' which is non taxable, or blend low grade gasoline with tax free naphtha or kerosene and after selling it pocket the tax. They juggle gallonage figures on receipts, forge documents, conspire with railroad employees to report shipments improperly and corrupt state officials or take them into partnership. They buy gasoline in a state 'for export' purposes, tax free, and then manœuvre the shipments so that the gasoline is returned to the same state. They buy gasoline in a state where the tax is low, pay it, and then sell the fuel in a state where the tax is high. These two latter methods are probably the most commonly employed in this gigantic racket.

"Another of the most common forms of evading the tax is for a filling station operator to conduct his business in a bona fide manner and then 'sell out' and seek new fields when the time comes to report tax collections to state authorities. As the tax in most cases amounts to from five to ten times the amount of what have been a legal profit during the period of operation, the dealer has an incentive to pull up stakes. It is only fair to the states, however, to point out that officials are wise to this form of evasion and instead of allowing from 60 to 90 days for tax reports as formerly, have as a general rule narrowed the time margin for such reports.

"Take the 'for export' phase of the racket, for example. A tanker loads up with gasoline in Pennsylvania 'for export' to a nearby state. Then after plying the Delaware River or nearby waters for a few hours, the tanker is headed into Pennsylvania under cover of darkness and unloads. If the cargo was 10,000 gallons, the three cent tax in Pennsylvania means a profit of $300.

"Virtually the same methods of operation are employed in using tank cars or trucks. The tank car is filled with gasoline 'for export' to a nearby state and upon reaching the destination, with the aid of some unscrupulous railroad employee eager to make a dollar or sometimes through regular channels, is reconsigned to the state where the shipment originated. The fuel is then sold and those in on the deal pocket the tax."

GASOLINE RACKET

An Editorial from The Saturday Evening Post of December 26, 1931

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No one likes to be robbed, but sometimes purses are stolen without the owners' knowledge. It is high time that public attention should be directed to one of the newest and most destructive of large-scale rackets—that is, to the bootlegging of gasoline, which is merely another way of describing evasion of gasoline taxes. Gasoline is used by practically everybody, and taxes upon it are spent upon the highways, whose improvement is so dear to the hearts of the public. Thus practically the whole people are robbed of the highways to which they are entitled when gasoline bootleggers escape the payment of taxes. In one state alone in a single recent year the people were cheated out of more than six hundred miles of improved hard roads by this dishonest and illegal practice.

The bootlegging of gasoline has been in a fair way of becoming one of the major illicit industries, but for the most part it has lacked the gun play and murder of the other form of bootlegging, and so has failed to attract much attention. Until rather recently it was considered merely a mild annoyance by the legitimate trade itself, which is now shocked to find that the practice is widespread, and demoralizing to all that is decent in the marketing end of the business. For evasion of the gasoline taxes has been taking a multitude of different forms, many of them as sordidly dramatic and as corrupting as anything in the older branches of crime.

It is essential to the morale of all business that legitimate marketers and dealers in gasoline should protect themselves and be protected by the state, as well as by the force of public opinion, against the racketeers. It is estimated that from fifteen to fifty million dollars in taxes have been lost annually. There are instances where tax-evading dealers have cut prices below what the legitimate trade could afford and still make a profit, because of the tax withheld.

The use of dummy and evanescent companies, which disappear after selling large quantities of gas and before the tax authorities can check up on shipments, the use of fake paint factories and other industrial plants whose consumption of gas is tax free, the juggling of shipments and reports, the blending of gas with other products which are tax free—these and a dozen other practices present a serious and novel problem for government authorities and business committees.

It will take eternal vigilance completely to rout the gasoline bootleggers, even if the tax rate is not raised, while, of course, the temptation to evasion will increase if the rates should go higher. For one thing, each state must incorporate into its law the best features of the laws of other states. In the next place, the states cannot enforce any such tax without sufficient auditors, inspectors and border patrols. Nor can enforcement succeed if rotten political interference raises its ugly head.

Then, too, the states cannot do it all. The decent elements of the oil industry must everywhere protect their own integrity, as they already have done most effectively in several states, and aid the little group of officials whose duty it is to enforce the law.

Vigorous prosecution of gasoline bootleggers and profiteers cannot fail to be popular with the public, if once the public is informed. For here is a type of pillage that reaches everybody, directly and immediately, not only in the money stolen but in the roads which are not built. It is hardly conceivable that a jury would fail to convict in these gasoline cases.

The wiping out of this particular brand of thievery is a real challenge to all who have an interest in law inforement.

THE GASOLINE TAX EVASION PROBLEM AND HOW IT IS BEING MET IN PENNSYLVANIA †

CLYDE L. KING*

GASOLINE BOOTLEGGING IN PENNSYLVANIA

Gasoline bootleggers have robbed Pennsylvania out of many millions of dollars in taxes. In the first few months of the present Pinchot administration, we found that one gasoline dealer out of four was either not reporting at all or reporting fraudulently. We found that at least one gallon of gas out of five, and probably one out of four, pad no tax to the state, and the tax went into the bootlegger's pocket.

In August of this year the bureau collected the tax on 105,258,553 gallons, as compared with 81,573,935 gallons in the same month of the previous year, an increase of 28 per cent. In September of this year the bureau collected on 112,270,218 gallons, as compared with 83,964,882 gallons in the same month of the year before, an increase of 33.7 per cent. This increase happened as our registrations of automobiles and trucks were declining, as compared with the year before, due to the depression.

Bootlegging of gasoline previous to the present administration was one of the major illicit industries of Pennsylvania. It now is in the midst of a serious depression. That depression is due to an honest administration of the law without fear of political reprisals and without political favour, and to the enactment of a gasoline tax law which the government of Pennsylvania and the great gasoline distributing companies in the state agree has been a benefit to both.

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† Presented at Twelfth Annual Meeting, American Petroleum Institute, Chicago, Ill. November, 10, 1931.

* Secretary of Revenue, Commonwealth of Pennsylvania, Harrisburg, Pa.

LIQUID FUELS TAX ACT

The present liquid fuels tax act was signed May 21, and became effective June 1 of this year. It removed collection of the gasoline tax from the retailer to the distributor. It reduced collection of the tax from approximately 28,000 retail dealers to the 580 distributors now holding permits to do business in Pennsylvania.

We found 7,200 dealers who were making no returns at all, or were making fraudulent returns. Prosecution followed investigation. As the whiskey bootlegger cannot operate without political connivance, just so was it impossible for the gasoline bootlegger to function without the same aid. This, we quickly discovered. A certain type of politician began to howl. His cry fell on deaf ears. Governor Pinchot's instructions were to clean up the mess.

From February to September of this year, we collected a total of $918,300 in delinquent taxes alone. These figures represent collections made as a result of our investigations, and which no attempt at collection had been made until the coming of the present administration. We are now collecting an average of $125,000 delinquent taxes per month, or at the rate of $1,500,000 per year. The total delinquent account under the old act was $3,698,558. As gasoline tax money builds Pennsylvania highways, that meant that 616 miles of improved, hard roads were withheld from the taxpayers of Pennsylvania in delinquent taxes only, to say nothing of the amounts never reported in earlier months.

We have started more than 600 criminal prosecutions for violations committed under the old act. We have revoked the permits of more than 300 retail gasoline dealers, and we would have revoked many more had the present act not been passed. For under the present act, retailers need have no permits.

Under the liquid fuels tax act now in force, our cost of collection is much less than it was before. Thus, in September of this year the payrolls and other expenses of the Liquid Fuels Tax Bureau were $20,400 less than in the August preceding, and further reductions in cost are at hand as the old mess gets cleared up.

BUREAU OF LIQUID FUELS TAX

The Bureau of Liquid Fuels Tax is the connecting link between the distributor and the Department of Revenue. Working with it is a delinquent tax collection unit with eight centrally located branches throughout the state. The function of that unit is to facilitate the collection of delinquent taxes as determined by the auditing unit.

The auditing unit verifies the distributors' reports, as they are received each month, by comparing them with the reports filed monthly by the various railroad companies, or other common carriers, and with the reports of sales by the distributors from whom they buy. Under the present law all common carriers must furnish monthly reports to the Department of Revenue of all gasoline moved, either coming into Pennsylvania or from one point to another in Pennsylvania. By requiring common carriers to make these reports, the gasoline bootlegger has been deprived of one of his principal methods of tax evasion.

Within the bureau is a field auditing unit. It is the business of that unit to see that an auditor visits each distributor frequently and to make a complete investigation of all records.

REVENUE BORDER PATROL

Much of our success in curbing the flow of bootleg gasoline into Pennsylvania followed the creation of a revenue border patrol of 40 men. This patrol operates on land and water. The land unit patrols the various highways leading from states bordering on Pennsylvania. The water unit patrols the Delaware and Schuylkill Rivers. The one checks all gasoline entering Pennsylvania in trucks. The latter checks all gasoline coming into the state in barges. The moral effect has been splendid. Running gasoline into Pennsylvania by land or water is becoming an unprofitable business.

For the United States as a whole about one billion gallons of gasoline out of fifteen billions used have escaped taxes annually. This huge racket can be routed if the states will take rotten politics out of tax enforcement, spend adequate money for auditors, and use adequate inspection methods.

Because gasoline bootlegging has lacked the gun play and the sordid dramatics of the other form of bootlegging, it has failed to attract general public attention in most states. The people of Pennsylvania, however, no longer look upon it with complacency. They think of it now in terms of dollars and cents stolen from them in miles of needed highways which the bootlegger withheld from them.

MORE COOPERATION NEEDED

Better cooperation between the gasoline tax collecting agencies of the various states will do much to hamper this form of tax evasion. It will help the state treasury and the state treasury of your neighbouring states. Cooperation between states and reputable distributors is necessary. In Pennsylvania we are receiving this cooperation from all the worthwhile men in the oil industry. Without this cooperation, we could not have succeeded at all to the extent we have.

The states have the duty of protecting legitimate dealers from this type of fraudulent competition. Such competition is destructive alike of good business practices and of good morale on the part of taxpayers. It is ethically indecent for any state to so administer a tax as to bring outrageous business practices into existence, and then to encourage them.

LEGISLATIVE SAFEGUARDS AGAINST GASOLINE TAX EVASION†

William A. McAfee*

LEGISLATIVE SAFEGUARDS ARE SUGGESTED

The purpose of this paper is to suggest legislative safeguards designed to aid in solving the increasingly serious problem of gasoline tax evasion. The words " aid in solving " are designedly used, for everyone knows that laws and even constitutional provisions—no matter how drastic—often fail to accomplish their purposes, as the supporters of the prohibition laws have discovered. Success or failure of a law depends upon its general acceptance by the community at large, upon efficiency of its administrators, and upon the general structure and specific provisions of the law itself. It is undoubtedly true that the nature of the structure and specific provisions of any law is a very important factor in determining its success or failure, and it is certainly to the best interests of the petroleum industry to see to it, in so far as it lies in its power, that gasoline tax laws are so drawn that they may be easily and effectively administered, and that evasion of the tax may be minimized to the greatest possible extent.

It seems to the writer, after examining most of the gasoline tax laws now in force, that many of them may be criticized from the point of view of effectiveness on two general grounds—the first ground being that their general frame-work is not so designed as to make administration as easy as possible; and the second ground being that they fail to contain certain specific provisions which would obviously make evasion much more difficult.

† Presented at Twelfth Annual Meeting, American Petroleum Institute, Chicago, Ill., November 10, 1931.

* Standard Oil Co. of Ohio, Cleveland, O.

WHAT SHOULD BE FRAMEWORK OF GASOLINE TAX LAW?

What should be the framework of a gasoline tax law designed to produce the greatest effectiveness and ease of administration? That is to say, on whom should the tax be levied? Should the consumer, the retail dealer, the jobber, or the first person receiving or selling motor fuel within the state, viz., the importer or local refiner, be the taxpayer? Should the amount of tax which the taxpayer is obligated to pay be determined by the amount of motor fuel sold or used by him within the state (the so-called "sales tax"), or by the amount of motor fuel received by him within the state (the so-called "receipts tax")? Should the definition in the law of "motor fuel" include gasoline only, or should it include a greater range of petroleum products? And, finally, should the law contain provisions for exemption from tax or refunds of tax on motor fuel sold or used for non-highway purposes? A proper solution of these problems as to the general framework of gasoline tax legislation will be of great help in solving the problem of tax evasion.

The first question to be answered in setting up the general framework of an effective gasoline tax law is the question: who should be obligated to report and pay the tax to the state? It would be next to impossible to collect it from the consumer. To collect it from the retail dealer is extremely difficult, because of the large number of taxpayers involved and the consequent difficulty of checking records, making collections, and prosecuting evasions. The impracticability of a gasoline tax law levying a tax on the retail dealer has been pretty generally recognized; and, as a matter of fact, the last law of this type in force in this country, viz., the Pennsylvania law, has recently been repealed. The ideal tax from the point of view of easy and effective administration is the tax levied at the source, i.e., upon the refiner as to motor fuel refined by him in the state, and upon the importer as to motor fuel imported by him from without the state. The number of taxpayers under a law of this type is reduced to the absolute minimum, with a consequent ease in checking and collecting the tax; and in states where there are no local refineries, a tax of this general framework imposes no hardship, and is as nearly ideal in operation as any law of this nature can be. However, in states where there are local refineries, it has been found that a tax at the source on the refiner and importer results in a serious discrimination against the local refiner, for the reason that when the local refiner sells his gasoline to a jobber or dealer, he must protect himself by charging and collecting the tax which he is under obligation to pay to the state; and in a great many cases the refiner does not wish to extend credit. In such cases the gasoline tax must be collected from the jobber or dealer in addition to the price of the gasoline at the time of delivery. On the other hand, if the dealer or jobber, instead of buying from the local refiner, imports his gasoline from outside of the state, he does not have to pay his gasoline tax when the gasoline is dumped into his storage tanks, but *later* reports and pays the tax himself to the state on the imported gasoline according to the time schedule fixed in the gasoline tax law. Under most laws he would not be obliged to pay the tax to the state for at least 20 days after receipt of the imported gasoline, and might have a much longer period. Such a dealer or jobber in a state having a tax strictly at the source, viz., upon the refiner or importer, would naturally prefer to buy from sources outside of the state, rather than patronize the local refiner, in order to conserve his cash, of which he is usually short.

In order to avoid the hardship on the local refiner referred to above, it would seem advisable in states where there is a local refining industry, to permit the local refiner to sell gasoline tax-free to jobbers, dealers or consumers holding licences from the tax-enforcing authorities, but only in tank or car, cargo or barge lots, which are relatively easy to trace. Such a tax might be termed a "modified source tax." It has been found that the extension of this privilege to the local refiner—of selling gasoline tax-free when the sale is made under the above restrictions—does not materially increase the difficulty of collecting the tax or the chance of evasion, although this modification does increase somewhat the number of persons obligated to pay the tax, and, therefore, the work of the administrative officials. This privilege should, of course, be extended only if the law contains provisions requiring sellers of such tax-free motor fuel to report all such sales monthly, together with such information as may be necessary to trace each tax-free shipment to its destination, and requiring reports from carriers of all motor fuel transported into or within the state. As a matter of fact, there should be no material objection to extending the privilege of tax-free sales or receipts even still further, and permitting any number of tax-free sales or deliveries between licensed taxpayers in tank car, cargo or barge lots, provided that no unlicensed taxpayer appears in the chain of title, and provided that the tax law contains the above-mentioned safeguards. Indeed, in states having a so-called "receipts tax" and a fixed allowance for evaporation, shrinkage, etc., justice would seem to require some such provision.

SHALL TAX BE DETERMINED BY "SALES TAX" OR "RECEIPTS TAX"?

We come now to the second question to be answered with regard to the general framework of a workable gasoline tax law. Should the amount of tax which the taxpayer is obligated to pay be determined by the amount of motor fuel sold or used by him within the state (the so-called "sales tax") or by the amount of motor fuel received by him within the state (the so-called "receipts tax")? In many of the states, especially in the East, the measure of the tax is the number of gallons of motor fuel sold or used by the taxpayer. Tax administration officials, in order to check the accuracy of a taxpayer's return for any period, must, therefore, check or audit the sales of the taxpayer during the period; and in practice it has been found extremely difficult to check the sales records of the smaller taxpayers. A great many of the smaller taxpayers do not keep proper sales records—some with the view of evading the tax, and some through sheer carelessness. Even where proper sales records are kept, an audit of same has proved to be too much of a burden upon the taxing authorities. The great trouble with this form of tax law is that it lies within the power of the tax evader to falsify or destroy the only direct evidence on which the taxing authorities can base their claim for tax. It is believed that a very considerable amount of tax evasion is accomplished by the falsification and destruction of sales records under the sales tax law. It is a favourite practice of taxpayers to keep their books and make their tax reports in such a way as to show a small volume of taxable sales and a large non-existent inventory of motor fuel, which the taxing authorities can only detect by taking a physical inventory themselves—an extremely onerous task. In practice, the existence of such a false inventory is discovered, if at all, only after it is too late to enforce collection of the tax. Another very serious objection to this form of law is that the taxing authorities ore at a disadvantage in prosecuting tax evaders or attempting to collect taxes by civil suits, for the reason that, in order to establish the case against an evading taxpayer under this form of law, they must prove in court the actual amount of motor fuel sold or used by him. The taxpayer's records are the only available direct evidence of this; and, if they are falsified or deficient, they will be useless as evidence, unless the falsification or deficiency is apparent on their face, which is seldom the case. In such cases, the best the taxing authorities can do to establish their case is to try to prove the deliveries of motor fuel to the taxpayer over the period in question, the inventory of the taxpayer at the beginning of the period, the amount of sales reported by the taxpayer for the period, and the taxpayer's inventory at the end of the period. If the taxpayer's actual inventory at the end of the period as proved is less than it should be in view of the size of the opening inventory, the amount of deliveries and the amount of sales reported for the period in question, the inference arises that the taxpayer has omitted to report sales made. The taxing authorities have to make their case on this inference, which, of course, is a somewhat weak one, inasmuch as the taxpayer or his lawyer may advance many possible reasons for the shortage in inventory at the end of the taxable period, such as unusual leakage, theft by employees or other losses. A skilful lawyer for the defence can make a great deal out of the weaknesses of the testimony the taxing authorities are forced to use, and juries are very reluctant to give convictions if the defence is skilfully handled in such cases.

"RECEIPTS TAX" MORE WORKABLE

Realizing the weakness of the sales tax from the administrative point of view, many of the mid-western states have adopted the so-called "receipts tax," which the writer, after experience with both types of law, believes to be more workable in operation, and less likely to be evaded than the sales tax. Under the so-called "receipts tax" law, the amount of tax payable by the taxpayer for any period is directly measured by the number of gallons of motor fuel received by him within the state during that period, less a fixed percentage allowance for evaporation, leakage, and loss in handling. This type of law should also provide that, while the tax should be paid to the state each month strictly on the above basis, a refund should be obtainable by the taxpayer of the tax paid on any motor fuel lost or destroyed by reason of extraordinary cause, such as fire, theft, explosion, etc., upon satisfactory proof thereof to the taxing authorities.

The advantage of this type of law over the sales tax type is the relative simplicity of checking the returns of the taxpayers. In order to verify the accuracy of the return of any taxpayer for any period, the taxing authorities can use as a check the reports of railroads and other carriers as to shipments to the taxpayer during the period, and also the reports of other taxpayers in the state making tax-free shipments to him. This method of checking has been found to be very effective in the states where it has been tried; and, of course, is much simpler than an audit of sales records. It is obvious that this type of law makes impossible the kind of evasion practised under the sales tax laws, i.e., falsely reporting a small volume of sales and a non-existent inventory of motor fuel on hand. In cases of prosecution for tax evasion, the taxing authorities can prove their entire case directly by the testimony of employees of railroads or other carriers and their records showing the amount of the actual deliveries made to the taxpayer, and do not need to rely for proof of their case on a weak inference of fact as in the case of prosecution of evaders under the so-called "sales tax."

The receipts tax has been very successful in all of the states where it has been tried; and, although there might appear to be certain difficulties and hardships involved in the adoption of such a tax in states where large quantities of motor fuel are shipped in and stored at marine terminals, these difficulties and hardships can, in the writer's opinion, all be removed by a proper definition of what constitutes "receipts" at such points. The tax-free transactions between licensed taxpayers can be provided for under this type of law as well as under the sales tax law.

PROPER DEFINITION OF "MOTOR FUEL"

This brings us to the third question to be considered in setting up the general framework of a gasoline tax law, and that is: the proper definition of "motor fuel." One of the favourite methods of tax evasion is, of course, the blending of a non-taxable product with gasoline, or the billing of gasoline under a name such as "distillate" or "naphtha," or some similar product, in states where the definition of motor fuel is not broad enough to include such products. In order to prevent this form of tax evasion, it would seem to be in the best interest of the petroleum industry to urge a very broad and sweeping definition of motor fuel, even though some inconvenience and hardship may result to the industry and its customers. For this reason, in my own state, the industry has acquiesced in a definition in the gasoline tax law and a practical interpretation of same which includes not only gasoline, but also naphthas for dry cleaning and even turpentine substitute and rubber solvent. Practically the only kind of white product of petroleum which is excepted from the definition is kerosene, and that, of course, is taxable when it is mixed or blended with gasoline so as to produce a product salable as motor fuel. I, myself, feel strongly that, in view of the growing practice of blending kerosene, it should be taxed even when sold separately. The hardship of such a definition on legitimate industries, such as the paint and rubber industries and the dry cleaners, can be partially obviated by permitting the sale of products, such as rubber solvent and certain classes of naphthas, tax-free in quantities not less than tank-car lots upon the certificate of the purchaser that the products will not be used in motor vehicles. But the seller should be compelled to make a report of all such sales. The tax should be collected from the small tank wagon customer purchasing products such as dry cleaner's naphtha, and he should be compelled to file a claim for refund on same. It seems to the writer that those of us in the industry—and there are some—who oppose a broad definition of motor fuel are only defeating our own ends, and that a broad definition would be an effective help to the taxpaying, law abiding companies in suppressing evasion.

From the point of view of administration, provisions for refunding gasoline taxes to persons using motor fuel for purposes other than the propulsion of motor vehicles upon the public highways are an abomination. They seem, however, to be a political necessity, especially in the agricultural states. Refund provisions are always abused, and these abuses are difficult to check. Wherever politically feasible, this type of provision should be omitted from gasoline tax laws. I hazard a guess that if this were done, there would be considerably less enthusiasm for increases in gasoline taxes among the rural members of our state legislatures.

"PUTTING TEETH INTO THE LAW"

So much as to the general framework of a gasoline tax law properly designed for effective administration and the prevention of evasion. In addition to a general framework of the character above described, there should be certain specific provisions incorporated in every gasoline tax law looking directly to its effective enforcement, a process commonly known as "putting teeth into a law." A licensing provision is one of the most important of these provisions. It should be made unlawful for any person upon whom the gasoline tax law imposes the duty of paying gasoline taxes to the state to engage in business unless he procures a licence from the state taxing authorities. This licence should be revocable by the tax authorities, on short notice, upon any default in the report or payment of the tax, and there should be a severe penalty for engaging in business without a licence, or for continuing in business after revocation of same. The taxing authorities should be given rather broad powers to refuse to issue a licence to any person whose previous record has indicated that he is a tax evador. For example, the taxing authorities should have the right to refuse to issue a licence to any person who had previously, at any time, defaulted in the payment of gasoline taxes.

As a prerequisite to obtaining a licence, a bond, conditioned upon the prompt filing of true reports and the payment by the taxpayer of his gasoline taxes, with sufficient sureties, should be furnished the taxing authorities. In the opinion of the writer, the bond should be at least in the sum of five thousand dollars, and preferably much higher; and, in the event circumstances warrant, the tax authorities should be given the power to demand an additional bond, sufficient in amount to insure the payment of the tax. The penalty for failure to furnish additional bond should be a cancellation of the taxpayer's licence. A well drawn legislative provision requiring the furnishing of a bond is of great aid to the state authorities in collecting gasoline taxes from irresponsible dealers.

Every properly drawn gasoline tax law should contain a provision giving a summary remedy to the taxing authorities for the collection of the tax. When a tax is due and unpaid, the official of the state charged with collecting the same should be empowered, without waiting for the trial of a law suit, to issue a warrant to the sheriff of the county where the defaulting taxpayer is located, authorizing the sheriff to seize the goods and chattels of the defaulting taxpayer at once and hold the same for the payment of the tax. This right of distraint is a very effective way not only of collecting the tax, but, what is usually more important, of putting the defaulting taxpayer immediately out of business. As a supplement to this provision, it might be well to provide that in any civil suit for the collection of gasoline taxes the state should have the right to attach the property of the defendant concurrently with the filing of the suit. This type of provision would prevent dissipation of the defendant's assets during the pendency of a suit for recovery of defaulted taxes.

The state should also be given a lien on all property of defaulting taxpayers within the state, to secure the payment of defaulted taxes, good against any persons except mortgagees, pledgees or other persons whose rights have accrued prior to the time when notice of the lien is recorded in the office of the recorder of the county where the property is located. This type of provision is to be found in the federal income tax law, and has been effective in producing results in the collection of that tax.

Justice and constitutional considerations require that motor fuel received in a state for export, or sold for export from a state, should not be taxed under the gasoline tax laws of that state. For this reason most gasoline tax laws provide that, in computing the amount of taxable gallonage in monthly reports, the taxpayer is entitled to take a deduction for motor fuel received or sold for export. It might be well, if it is not too great a hardship upon the industry, to require that the deduction taken for export shipments should be supported by a schedule showing the name of the consignee, the name of the carrier, number of the tank car or tank truck or name of the ship in which the motor fuel is shipped, the point of destination, and the amount of each export shipment. Such a provision would help to minimize the falsification of export deductions, which has become quite prevalent. It would also supply the taxing authorities of other states with information of shipments into their territory, thereby enabling them to check up unreported imports of motor fuel. In this connection, there should be in every gasoline tax law a provision requiring the interchange of tax information with other states, for it is only by co-operation between the taxing authorities of the various states that tax evasion can be effectively suppressed.

One of the most effective enforcement provisions of gasoline tax laws has been found to be the so-called "carrier's report" provision. This provision should require railroads and other common carriers, including motor truck companies and shipping companies, to report each month to the taxing authorities all deliveries made by them of motor fuel, and also kerosene, to points within the state. Any person transporting gasoline, by whatever means, across state lines should also be compelled to report deliveries of motor fuel. In each case the information should be sufficiently detailed to enable the taxing authorities to trace the shipment to the point of delivery. Such information has been found to be an invaluable aid to the taxing authorities, and this is true whether the law is the so-called "sales tax" or the so-called "receipts tax." Coupled with this provision, there should also be a provision requiring non-licensed taxpayers purchasing motor fuel or kerosene in tank car or cargo lots, and re-selling or using the same, to register with the state and to report each month detailed information to enable the taxing authorities to trace the movement of the tank car on ship after it leaves the hands of such non-licensed taxpayer. The information furnished by these two types of reports, plus the information furnished in reports of licensed dealers as to tax-free shipments made by them, should afford a complete check on the disposition of motor fuel within the state in tank car or cargo lots.

If the law provides for refunds to farmers, etc., of the tax on motor fuel used for agricultural or other purposes, certain safeguards designed to lessen the chance of fraudulent refund claims should be imposed. A short period, preferably not more than 90 days after receipt of motor fuel, should be allowed for filing the claim for refund. The claim should be sworn to, and severe penalties for false application should be imposed. The original invoice for the purchase, on which refund is claimed, should accompany the application, together with some evidence of payment thereof, so that the state will not be refunding tax to an applicant who has not paid his bill to the seller of motor fuel. It has been found useful to provide that, in all cases where the purchaser claims to be entitled to a refund, he should be given a special form of tank wagon ticket issued by the taxing authorities which is made out in triplicate and which is numbered consecutively. The duplicate of this ticket, bearing the same number as the original, is required to be forwarded by the seller of the motor fuel each month to the taxing authorities. Every application for a refund is required under this provision to be accompanied by the original numbered ticket. When the application is received by the taxing authorities, the numbered ticket accompanying it is compared with the duplicate bearing the same number sent in by the oil company. By this means the fraudulent raising of invoices by applicants for refunds can be stopped.

The penalties for evasion of the gasoline tax law should be as severe as is reasonably possible. A fine and imprisonment should be the penalty for doing business without a licence or after a licence has been cancelled, and for false reports. For a mere failure to pay the tax or failure to file a report, there may be constitutional difficulties in the way of imposing a jail sentence in states where the constitution forbids imprisonment for debt. However, in such cases a severe penalty should be added to the amount of the tax due.

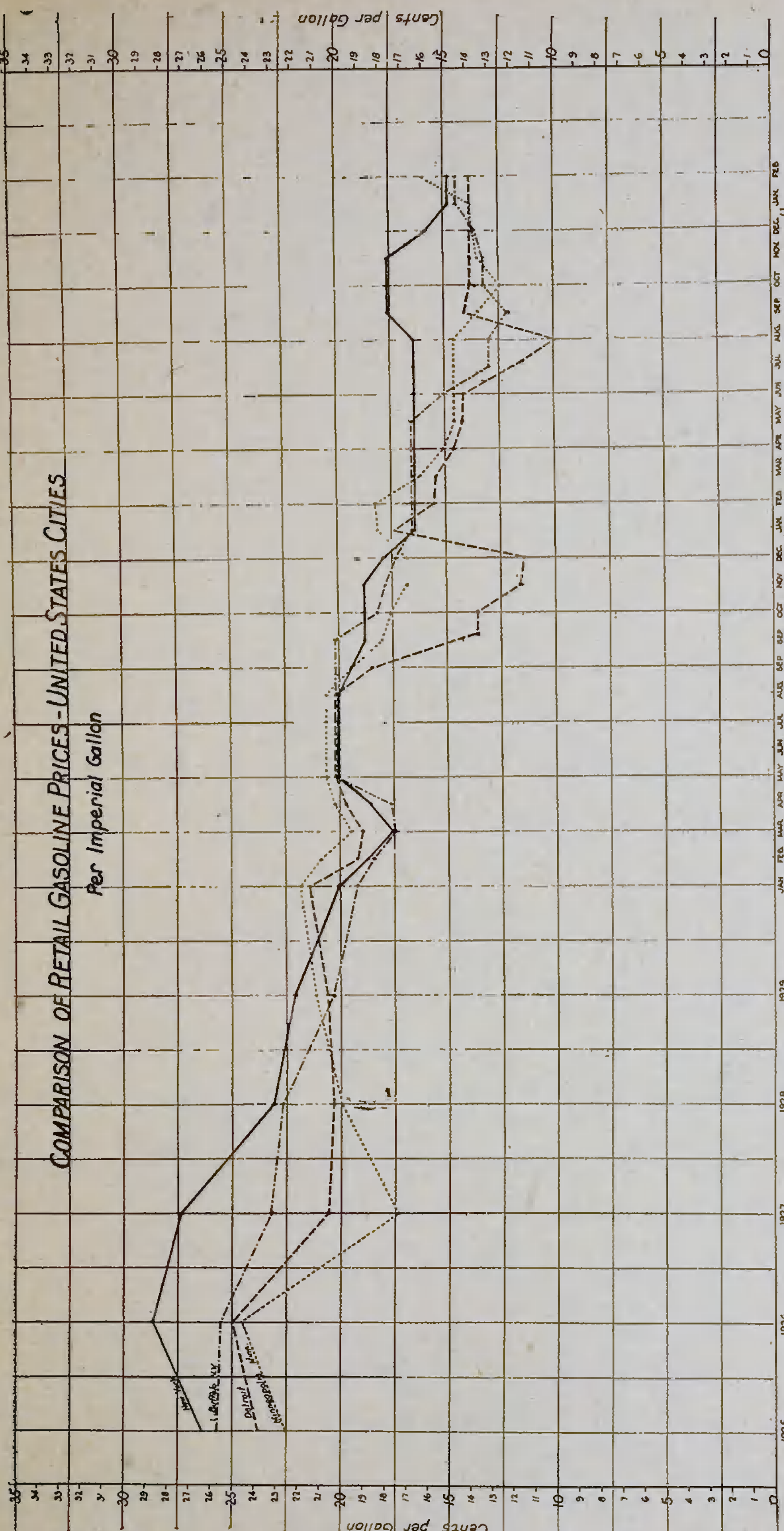
Other good enforcement provisions are those giving to the taxing authorities the power of arbitrary assessment of tax if no return is filed, or of making assessment of additional tax if incomplete or false returns are filed, such assessments to be in court proceedings *prima facie* evidence that the amount thereof is due and payable to the state, and the burden of proof being put upon the taxpayer to establish their incorrectness.

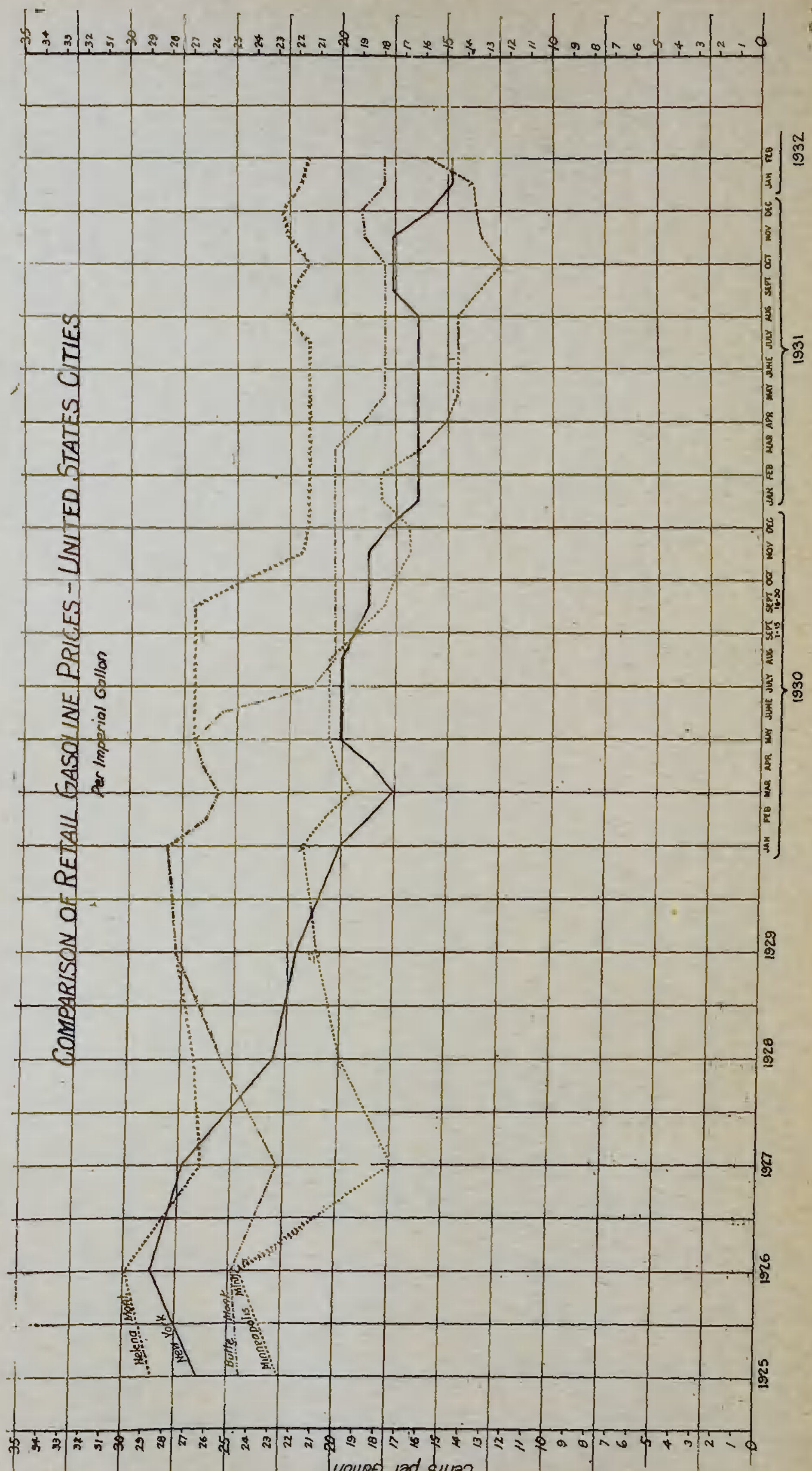
The law should also provide that the records of the taxing authorities shall be open to public inspection, so that the industry itself may keep a check upon tax evaders. The taxing authorities should be given the right to examine books and records of taxpayers, and to compel the production of testimony before them in any investigations. Taxpayers should be required to keep records for a period of at least two years, in order to prevent destruction of evidence of tax liability. In addition to the above, it is recommended that there be a provision to the effect that any person giving information of violations of the gasoline tax law may be given a reward from public moneys up to, but not exceeding, in amount a certain proportion of the tax recovered or fine imposed by reason of his information. This type of provision, commonly known as the "tax ferret" provision, is found in the new Pennsylvania act.

I have tried to suggest certain ideas as to the general structure of and the proper "teeth" for a gasoline tax law. There are doubtless other provisions which would be extremely effective, and which will be developed as time goes on; and some of the provisions I have suggested may not prove in practice to be effective in the long run. I believe, however, that each of the provisions suggested in this paper are incorporated in the laws of some one of the various states, and we can test their efficacy in the laboratory of actual experience.

ETERNAL VIGILANCE NEEDED

In closing, however, let me repeat the statement made at the opening of this paper that, no matter how good the structure, or how many the "teeth" in a gasoline tax law, it will fail unless properly administered; and it is submitted that the industry should give every aid to tax administration officials in the performance of their duties. The price of effective gasoline tax enforcement is eternal vigilance on the part of the taxing authorities and on the part of the industry.


COMPARISON OF RETAIL GASOLINE PRICES - UNITED STATES CITIES
Per Imperial Gallon
Cents per Gallon


COMPARISON OF RETAIL GASOLINE PRICES - UNITED STATES CITIES
Per Imperial Gallon
Cents per Gallon
Helena, Mont.
New York
Butte, Mont.
Minneapolis, Minn.
1925
1926
1927
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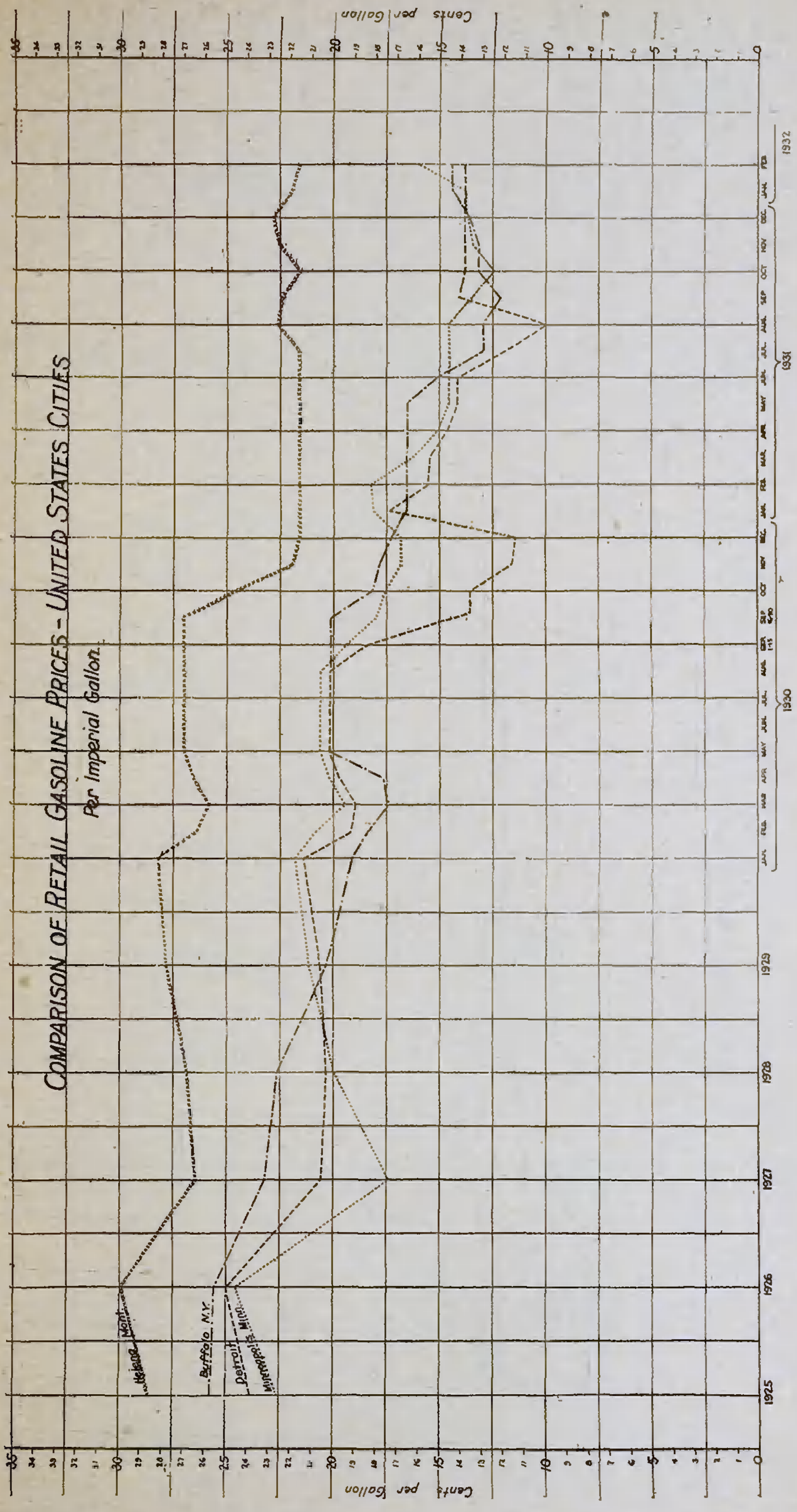
1929
1930
1931
1932


COMPARISON OF RETAIL GASOLINE PRICES - UNITED STATES CITIES
Per Imperial Gallon
Helena Mont.
Buffalo N.Y.
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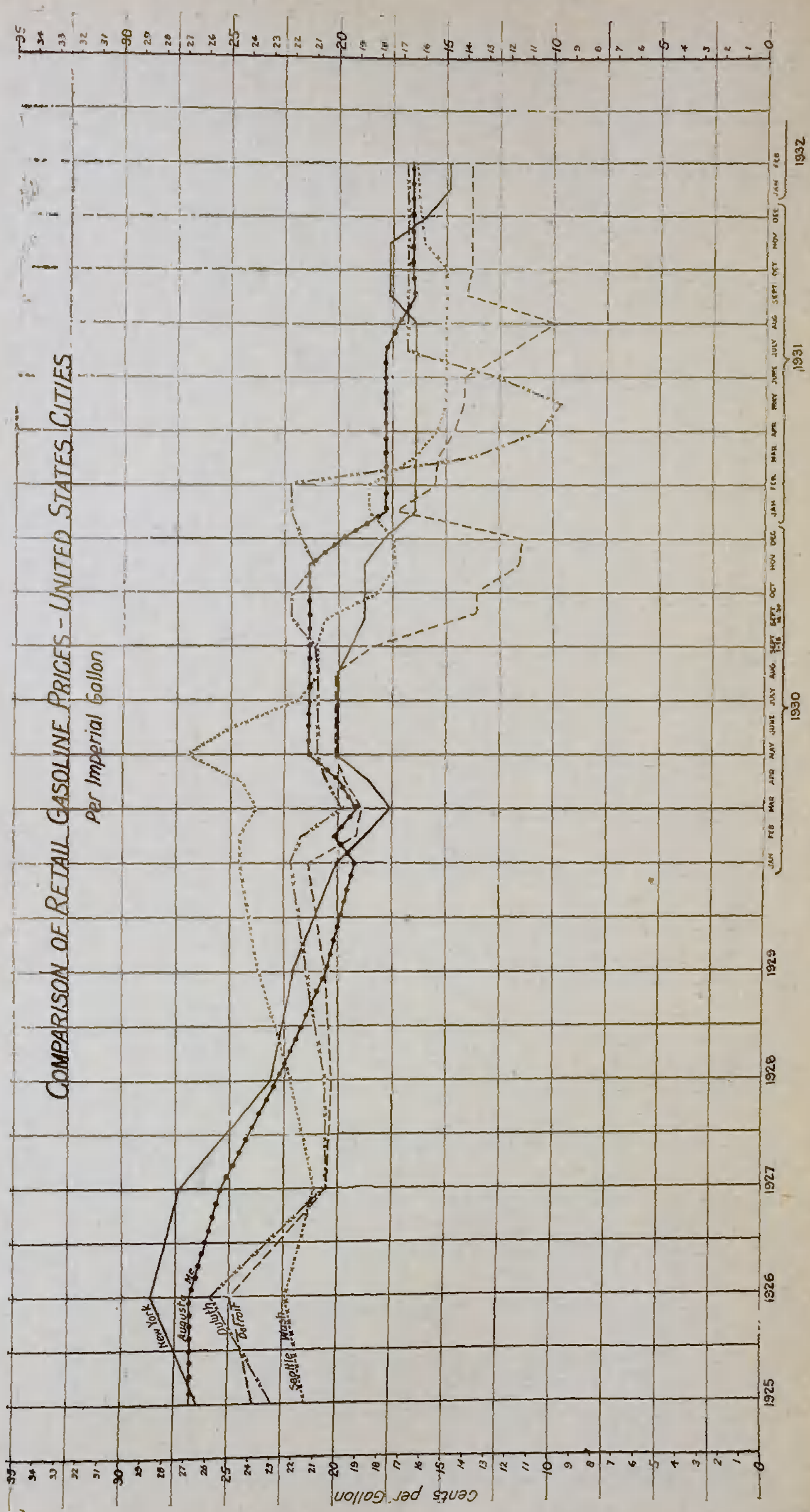

COMPARISON OF RETAIL GASOLINE PRICES - UNITED STATES CITIES
Per Imperial Gallon
New York
Augusta, Me.
Duluth
Detroit
Seattle
Wash.
Cents per Gallon
1925
1926
1927
1928
1929
1930
1931
1932

SESSION 1932

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

TUESDAY, MARCH 22, 1932

No. 5

Reference,—Price of Gasolene

WITNESSES:

L. C. McCloskey, Imperial Oil, Ltd.; J. McNeil, Director of Sales, Imperial Oil, Ltd.

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1932

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,

TUESDAY, March 22, 1932.

The meeting came to order at 10.30 a.m., Mr. Matthews presiding.

Members present: Messrs. Baker, Beynon, Bothwell, Bowman, Donnelly, Euler, Hanson, Howard, Matthews, McGibbon, Pettit, Sanderson, Smoke, Spencer, Stanley, Sullivan, Vallance.

The Committee again took under consideration the reference re gasoline prices.

Mr. Matthews, chairman of the sub-committee presented a Report as follows:—

TUESDAY, March 22, 1932.

Your Sub-Committee duly convened this day in conference with the Committee Auditors and Mr. McCloskey of Imperial Oil, Ltd., begs to report that the said Auditors be instructed as follows, namely:—

1. That the accounts of the Imperial Oil, Limited, be taken for the purpose of establishing the fundamental facts required by the Committee.

2. That a basis of establishing the ascertainment of costs be mutually agreed upon between the auditors and the officers of Imperial Oil, Limited.

3. That for the purposes of the two preceding paragraphs, the investigation be specifically applied against

(*a*) The Sarnia and Halifax Refineries as regards the elements entering into production costs as a whole and as applicable to proportionate distribution of these total costs against gasoline and other commodities refined from crude.

(*b*) The relative wholesale price of gasoline and other commodities refined from crude in relation to costs of production at the Sarnia and Halifax Refineries.

(*c*) The elements embodied in the selling, distribution and administration expenses, added to the costs of production, in relation to selling prices for Imperial Oil, Limited, as a whole and as specifically applied in the following marketing divisions—

(*d*) That such marketing divisions may be designated by your Sub-Committee.

4. That synonymous with this investigation by the auditors into the aforementioned cost and selling factors of the Imperial Oil, Limited, they secure from British American Oil Co., Limited, and from McColl Frontenac Oil Co. Limited, statements in such form as will render practicable a comparison of the relative costs and selling prices of the three corporations, thus offering means of disclosing any major variations without entailing the additional expense of investigating the smaller oil companies operating in Canada.

All of which is respectfully submitted.

R. C. MATTHEWS,
Chairman of Sub-Committee.

On motion of Mr. Bothwell the said report was concurred in.

Mr. Bury, M.P., was accorded the privilege of addressing the Chair, whereupon he directed attention to the extensive deposits of Tar Sands north of Edmonton, as a possible source of gasoline supply.

Mr. McCloskey was recalled and examined.

Mr. John McNeil, Director in charge of Sales, Imperial Oil, Limited, was called, sworn and examined with respect to the distribution of gasoline.

The Chairman informed the meeting that Mr. McQueen of Imperial Oil, Limited, would appear before the Committee at a later date to give information as to the situation in the Turner Valley Oil Field.

The Committee adjourned sine die.

A. A. FRASER,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

TUESDAY, March 22, 1932.

The Select Standing Committee on Banking and Commerce met at 10.30 o'clock; Mr. Matthews presiding.

The CHAIRMAN: Gentlemen, my attention has been called to a printer's error in the report of proceedings and evidence of this committee, No. 3, dated March 17, 1932. In answer to a question by Mr. Donnelly at page 87, the witness, Mr. McCloskey, gave the figure of 1·01 cents per imperial gallon as the refining and marketing profit on the aggregate gasoline sold direct and indirect by Imperial Oil. The report erroneously gives the figure as 7·01 cents, instead of 1·01.

Before we proceed this morning, Mr. Bury has asked if he has the permission of the committee to ask a question.

Mr. BURY: Mr. Chairman, and gentlemen of the committee, it is not so much the asking of a question as the bringing before the committee a matter that I think should not be altogether overlooked. If you will just give me about half a minute, Mr. Chairman and members of the committee, I shall make my point clear. Most of the members of the committee, I am sure, are aware of the enormous deposit of tar sands lying to the north and slightly to the east of Edmonton, along the Athabaska river. It is a deposit which is unique in its structure; it is a phenomonal deposit, extending over 15,000 miles, and lying for 100 miles or so along the banks of the Athabaska at depths varying from 25 to 100 feet. There is an amount of petroleum and gasoline in that deposit sufficient to supply the needs of the world for, I should say, hundreds of years. Now, it struck me that if an adequate investigation of this question could be carried out —whether it is within the purview of your commission or not I cannot say. That is a matter for you to deal with, but I should like to bring the attention, or to call the attention of your committee to that fact, the existence of his enormous deposit of tar sands, and also to the fact—but you will have to take my word for this, unless you go further into it—that it is a practical process to extract from that tar sand deposit gasoline at a commercial rate. The Department of Mines have been carrying on investigations in this matter for some time, and Dr. S. C. Ells of the Department of Mines has been working on the problem of tar sands for years right on the spot, and also in the city of Edmonton, and if it lies within the purview of the committee, I would like to suggest with deference that they should take the matter up and hear the evidence of Dr. Ells, who has assured me that it is a practical issue.

That is all I wish to say, Mr. Chairman. I want to thank you and the members of the committee for the courtesy given me of bringing the matter before the committee.

The CHAIRMAN: That is all very interesting, but I am afraid it is not within the scope of the reference. The order of reference deals with the price of gasoline only.

Mr. SPENCER: Mr. Chairman, if the information that Dr. Ells would give us would prove that gasoline could be produced in Canada cheaper than it is being sold now, would it not be of some value to the committee?

Mr. BOTHWELL: While it may be of value to the committee, I think we have about enough on our hands now to get through the specific reference given to the committee. If we have any time on our hands after, it may be possible for us to deal with that matter.

Mr. MCCLOSKEY: If it is your desire, I can outline in about two or three minutes the activities we have engaged in, in respect to that.

Mr. BOTHWELL: If we get into any discussion on that matter this morning, we will have to go into it quite fully.

The CHAIRMAN: I quite agree.

Mr. McCloskey has something to submit before we call on Mr. McNeil on the question of distribution.

Mr. STANLEY: Mr. Chairman, on the question of the Turner Valley, which request I made at the last meeting, I thought probably before you go into distribution discussions, that we might have Mr. McCloskey make a statement in regard to the production at Turner Valley, and the effect upon prices of gasoline in the province of Alberta.

Mr. MCCLOSKEY: That all comes under the jurisdiction of Mr. A. M. McQueen. I communicated with him and he is willing to appear before the committee at a little later date, probably after Easter, and give you the full information in connection with production in Turner Valley. I shall be glad to be here and give you any information in regard to the Turner Valley production in relation to production from other sources.

Mr. STANLEY: That is satisfactory.

The CHAIRMAN: Mr. McQueen has been communicated with and has agreed to come. He was unable to come at this stage.

Before calling on Mr. McCloskey, I will have the clerk read a report prepared yesterday at a meeting of the sub-committee with our auditors and with the representatives of the Imperial Oil on the question of procedure, and the granting of authority to do certain things. Will you read the report, Mr. Fraser?

The CLERK: This is in the form of a report of the sub-committee to the main committee, dated to-day.

> Your sub-committee duly convened this day in conference with the Committee Auditors and Mr. McCloskey of Imperial Oil, Ltd., begs to report that the said auditors be instructed as follows, namely:—
>
> 1. That the accounts of the Imperial Oil, Limited, be taken for the purpose of establishing the fundamental facts required by the committee.
>
> 2. That a basis of establishing the ascertainment of costs be mutually agreed upon between the auditors and the officers of Imperial Oil, Limited.
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> (*a*) The Sarnia and Halifax Refineries as regards the elements entering into production costs as a whole and as applicable to proportionate distribution of these total costs against gasoline and other commodities refined from crude.
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>
> (*d*) That such marketing divisions may be designated by your sub-committee.

> 4. That synonymous with this investigation by the auditors into the aforementioned cost and selling factors of the Imperial Oil Limited, they secure from British American Oil Co., Limited, and from McColl-Frontenac Oil Co., Limited, statements in such form as will render practicable a comparison of the relative costs and selling prices of the three corporations, thus offering means of disclosing any major variations without entailing the additional expense of investigating the smaller oil companies operating in Canada.

Mr. Bothwell: There is one question in connection with that that I would like to discuss for a moment. Clause 2:

> That a basis of establishing the ascertainment of costs be mutually agreed upon between the auditors and the officers of the Imperial Oil, Limited.

I don't know just exactly what that clause means. Mr. McCloskey the other day told us that their only method of computing costs was from a sales realization method, which appears to be different from what we thought should be the basis. We want to get at the actual costs of producing a gallon under those plans. Now, whether they can mutually agree upon that is the question in my mind.

The Chairman: They have. That is the agreement. They have agreed.

Mr. Bothwell: As I took it the other day, the way we wanted to get it would be impossible; that is, it would be impossible to get an absolutely accurate figure in less than a period of maybe three or four months. I presume the basis upon which they have mutually agreed will not give us accurate figures but approximate figures.

Mr. McCloskey: They will give you the actual figures, Mr. Bothwell. I would like to say that in giving evidence at the last meeting I outlined there was going to be considerable delay required in tearing apart the accounts, and probably the committee felt when I stated three months would be required to do that, it may have been my desire to postpone this to such a date that the session of parliament would be over and that the facts would not be available. That was not the intention at all. We simply wanted to get the absolutely accurate figures, and we want to get them as quickly as we possibly can. There is one thing we do not wish to happen, and that is to have this investigation dropped. We want some conclusion arrived at; so at the meeting yesterday with the sub-committee, it was decided that if the sub-committee would agree on certain refineries, that we could shorten the time required to obtain those figures considerably, and it is on that basis that we will give you the actual figures for those plants that are outlined in the report. It will shorten the time considerably because there are only two plants compared with six, and the committee selected those two plants. It will mean the breaking down of the 1·01 cents per imperial gallon profit made, combined on the refining and marketing divisions of Imperial Oil Limited, into various refineries and on this question you have selected two of those refineries from which you wish to obtain details.

Mr. Bothwell: Well, so far as this report is concerned, I take it, Mr. Chairman, that we are not confining ourselves to those particular plants. That is, in the work of getting out the details, we may have to continue the investigation further. This is a method of getting things.

The Chairman: This is just a method of getting somewhere.

Mr. Bothwell: We are not limiting ourselves in any way; we are not limiting the scope of the investigation to the points contained in this report.

The Chairman: No. There is no attempt to limit the scope of the reference. But in a committee such as this, where we have a different quorum from day to day, we were not getting anywhere. The sub-committee at the meeting yesterday felt that something should be done, and it was decided by the sub-committee that this was the basis on which we should work in order to get somewhere. The Committee felt that we will be able to reach some point, we will be able to determine the prices and costs of distributing gasoline in these two plants.

Mr. BOTHWELL: Subject to that understanding, that we are not limiting the scope of the investigation, I move the adoption of the report.

Mr. McCLOSKEY: I might state, Mr. Bothwell, that this matter was discussed with the auditors and the officials of the Imperial Oil, Limited; and we may take exception to that method, and ask the following of some other method such as the Federal Trade Commission method, if the auditors take some other method, so that we would like also to have the privilege of having a further discussion on it.

Mr. BOTHWELL: I think that is fair.

Mr. DONNELLY: I think there is one thing we should tell the Committee in order to be fair to the Committee. The order of reference says that recently the Canadian consumer has been paying too much for gasoline. Now, we have been dealing entirely with 1930. It is impossible for us to get the figures for 1931. The Imperial Oil Company says it has not the figures for 1931. We cannot therefore deal with recent prices.

Mr. HANSON: That is true of the Imperial Oil, but is it true of the McColl-Frontenac?

Mr. DONNELLY: We thought we were getting 1931 as well, so as to compare with the other, and form a comparison as to whether recent prices had been too high or not, but we were unable to get 1931.

The WITNESS: Dr. Donnelly, we can get this for the period since 1930. There are the current posted well prices and the crude oil that are published, and we have the current retail prices or wholesale prices of the products that we sell. Now, if we determine what the profit was for 1930 and then make a comparison of the crude price and the retail and wholesale prices of the products it will give you a comparison for the period since that.

The CHAIRMAN: Gentlemen, this is the practical way of getting on as determined by the sub-committee and the auditors. What is your pleasure regarding it?

Moved by Mr. Bothwell, seconded by Mr. Sullivan, that this report be approved and adopted.

Carried.

By Mr. Sullivan:

Q. I understand, Mr. Chairman, that the two principal refineries are at Halifax and Sarnia. You have some refineries at Montreal, Mr. McCloskey? —A. Yes, sir, we have one at Montreal.

Q. How would the prices compare?—A. In what respect?

Q. Between Halifax and Sarnia?—A. It would depend on the type of material that we put in there. It is a refinery where we run principally for lubricating oils and asphalts. We make a considerable amount of gasoline, but it is not run primarily for gasoline. At Halifax there are no lubricating oils made from crude oil.

By Mr. McGibbon:

Q. As a matter of information, are all your refineries equally efficient?—A. We operate all of them on a high degree of efficiency.

Q. That is not just what I want. Do they all reclaim an equal amount of gasoline, or do some of them reclaim a greater amount of gasoline at a lower cost than others?—A. I could put it this way, Dr. McGibbon: Some of them are skimming plants such as the refinery at Ioco, British Columbia, other plants are run for larger quantities of gasoline depending on the trade requirements, so that it all comes back to the requirements of the trade in certain territories, of different products. The more gasoline that is produced when you get into cracking operations the higher the cost per gallon of gasoline.

Q. Irrespective of the method? I am only asking for information. I have heard it said, for instance, that that gyro process is a much more efficient process than others, it is cheaper, not so much money required to put in the equipment, and reclaims a larger percentage of gasoline. I am not saying it is true.—A. I would not care to make any comments on any particular process, but I will say this, that we feel that we are leaders in the design of cracking equipment. When you say the process is cheaper in respect of cracking you have to consider all the factors. It might be cheaper as far as the operation of the plant is concerned, but on the other hand if you make an excessive gas loss, or in other words if you are converting gasoline into gas such as on the vapour phase cracking process as compared with low loss on the liquid phase cracking process, then the process with vapour phase cracking is not as economical. Our plan is to crack in the liquid phase up to a certain point, and when the cracking in the vapour phase starts we are very careful in respect to the control. It is a question of balancing manufacturing costs with yields from the processes.

Q. And you think that in analysing the costs in any one of your refineries it would be the fair average of everybody?—A. No, I would not say that, doctor, because I would not know.

Q. I see.—A. I would say it would be a fair average of ours.

The CHAIRMAN: I would suggest that the witness be allowed to proceed. Will you give those figures that you have Mr. McCloskey?

The WITNESS: I have a few figures with the cost of materials used in the refining process in Canada as compared with the cost of the same materials in refining processes in the United States.

In the refining of oil, the equipment is principally construction of steel, and pipe and fittings, various items of that kind. Take the item of steel under the classification of plates and structural items, they show as follows:—

Plates, Sarnia, laid down cost, $2.45 per cwt.

By Mr. Bothwell:

Q. Mr. McCloskey, that goes into the construction of your refinery?—A. And repairs and upkeep.

Plates, Montreal, $2.63 per cwt.
Plates, Baton Rouge, La., $1.79 per cwt.
Structural Steel, Sarnia, $2.35 per cwt.
Structural Steel, Montreal, $2.53 per cwt.
Structural Steel, Baton Rouge, La., $1.79 per cwt.
Pipe, Lapweld, 4 in., Sarnia, ·4312 per ft.
Pipe, Lapweld, 4 in., Montreal, ·4508 per ft.
Pipe, Lapweld, 4 in., Baton Rouge, La., ·3392 per ft.
Pipe, Lapweld, 6 in., Sarnia, ·7448 per ft.
Pipe, Lapweld, 6 in., Montreal, ·7840 per ft.
Pipe, Lapweld, 6 in., Baton Rouge, La., ·5983 per ft.
Pipe, Lapweld, 8 in., Sarnia, 1·2152 per ft.
Pipe, Lapweld, 8 in., Montreal, 1·2740 per ft.
Pipe, Lapweld, 8 in., Baton Rouge, La., ·9576 per ft.

By Mr. Donnelly:

Q. Are you quoting wholesale prices?—A. The prices that the refineries purchase from the suppliers. I might state, doctor, that it is our policy to purchase everything that it is possible to procure in Canada. Those are the instructions to our purchasing department.

By Mr. Pettit:

Q. Do you purchase much of that piping from the Page Hersey people?—A. Yes, we do, sir. I believe we do.

Valves, cast steel, flanged, 4 in. series 30:

Sarnia each $90.72.
Montreal, $90.72.
Baton Rouge, La., $61.38.

By Mr. Bothwell:

Q. Where do those valves come from?—A. Beg pardon?

Q. Where do you buy those valves?—A. If they are procurable in Canada we purchase them in Canada. If not, we have to purchase them in the United States because they are not made by Canadian concerns.

Q. Can you tell me where you would purchase those valves in Canada?—A. I cannot just tell you exactly where they are purchased.

Q. And why would the price of them be exactly the same in Sarnia and in Montreal?—A. Well, that would depend on the seller's quotation. It is a question of the price plus the freight plus the duty.

Q. Yes. Supposing, for instance, they are obtainable from Hamilton. There would be a difference in freight between Hamilton and Sarnia and Hamilton and Montreal?—A. Of course I don't know where they are shipped from. I just have the figures. It would depend on the source of supply.

By Mr. McGibbon:

Q. You probably would buy them in bulk and deliver them where you would require them?—A. We would buy them as required, sir.

Six inch series 30 valves, cast steel, flanged, $134.11, Sarnia.

Q. And the 4 inch valves?—A. It is $90.72. Montreal, $134.11; Baton Rouge, La., $90.40.

Eight inch series 30:

Sarnia, $199;
Montreal, $199;
Baton Rouge, La., $129.98.

Now, there are other items of fittings that I do not wish to burden you with.

The CHAIRMAN: I think that is all right from the standpoint of illustration.

The WITNESS: Yes, it is only a waste of time to go into that further. I would like, however, to take the item of pipe covering.

Six inch pipe covering, per foot:

Sarnia, .505;
Montreal, .5141;
Baton Rouge, La., .398.

Sulphuric Acid, which is a large item in the refining of petroleum products, Sarnia, per ton, $19.30; Montreal, $20.90; Baton Rouge, La., $12.23½.

Caustic soda, which is another item used in considerable quantity in the refining of petroleum products—

By Mr. Bothwell:

Q. Just when you are giving all those figures on sulphuric acid, you use sulphuric acid in your Ioco plant also?—A. Yes, sir.

Q. What would you have to pay for sulphuric acid there?—A. I have not got that figure. It is bought from the Consolidated Mining and Smelting Company at Trail.

Q. I wonder if you could get that figure for us, what you pay for sulphuric acid at the Ioco plant?—A. Yes, sir. Caustic soda, Sarnia, $62.10 per ton; Montreal, $65.90 per ton; Baton Rouge, La., $47.72 per ton.

I have here an estimate that was made in the year 1927 when we were considering cracking coils at Montreal refinery. It shows a comparison of the estimated cost of a unit of 1-1927 tube and tank cracking coils for 750 pounds per square inch working pressure complete with tankage if built in Canada and if built in the United States on the basis that the location of the Canadian plant and the United States plant should be considered as equi-distant from the point of origin of the materials. The labour rates in both cases have been exactly the same in those estimates. This estimate covers the last cracking coils that were constructed at Montreal, and it is in detail of 20 pages with numerous items on a page. It will give you an idea of the difference in the cost of construction in Canada and the United States, and I would say that this would be a good average figure in respect to refinery construction in general.

At Montreal $1,195,076.71; in the United States $985,859.79, a difference of 21.2 per cent higher in Canada than in the United States.

The principal reasons for higher manufacturing costs in Canada than in the United States in addition to higher cost of construction as just outlined and higher cost of materials are climatic conditions resulting in:—

(*a*) Necessity for placing all lines under ground as compared with lines not placed under ground in Southern United States refineries with the consequent heavier original construction costs and repair charges due to the necessity of burying the lines, and excavating and again burying them when repairs are made.

I might state that in the refining of oil one of the great problems that we have to contend with is that of expansion and contraction, and if there is a sudden expansion of lines it means that the lines are subjected to a terrible stress, with the consequent probability of rupturing them, and on that account we have to take these precautions, placing them below the frost level, so that when hot oil is pumped through them there will not be any fire hazards involved.

(*b*) Necessity for insulating certain tankage and numerous lines where steam lines must be encased in a jacket for heating purposes beside oil lines to permit pumping of crude oils and high cold test products at low temperatures.

Now, that does not refer to all crudes. It refers to the heavier grades of crude; but we will take the case of the Regina refinery as an example. When the cars of crude oil come in there in the winter time it is necessary to put those cars in a heating shed and heat them up to make the crude oil fluid enough to take it out of the cars. That is a considerable expense that is not entailed in the Southern refineries.

By Mr. Spencer:

Q. For what do you sell your oil which you are making at Regina at Winnipeg, after paying the freight?

The CHAIRMAN: That is a matter of distribution. I think we had better get that from another witness who is going to give evidence on the question of distribution.

The WITNESS: The next is:

(c) Heating of buildings and tankage in cold weather, which is not required at Southern United States refineries.

(d) More labour due to climatic conditions in general.

(e) Higher fuel consumption due to climatic conditions.

That is, higher fuel consumption for distilling, and for general use throughout the refinery.

(f) Higher fuel costs on account of the United States Refinery being at the source of supply of the fuel oil and not required to pay the transportation of same, such as are required in the case of the Canadian refineries.

In other words, the fuel oil content of the crude in the mid-continent refinery does not bear a transportation charge such as it does in the Canadian refineries, for instance, freight in the form of pipe line, rail transportation or any other type of transportation.

By Mr. Bothwell:

Q. That does not come in under climatic conditions, does it?—A. No.

Q. I thought you gave that as (f) under climatic conditions?—A. That was (e) under climatic conditions.

Q. (e) was higher fuel consumption?—A. Due to climatic conditions?

Q. Yes, and then (f), you put all of those under climatic conditions, placing lines under ground, necessity of insulating, heating buildings and tankage, more labour, higher fuel consumption, higher costs, because the United States refineries are closer to the source of supply.—A. Well, I think, Mr. Bothwell, if you use more fuel on account of climatic conditions, and the cost of fuel is higher per barrel on account of transportation charges, that is also attributable in part to the climatic conditions in addition to the higher cost due to the fuel consumpion.

The CHAIRMAN: Thank you, Mr. McCloskey.

Mr. BOTHWELL: Before Mr. McCloskey leaves we are starting in with the distribution now, that is the intention?

The CHAIRMAN: Yes.

By Mr. Bothwell:

Q. Can you give us what you charge at the refineries throughout Canada for your gasoline, that is, your wholesale prices there before starting into the distribution end?

The CHAIRMAN: Mr. McNeil will give you those figures.

By Mr. Pettit:

Q. Can you tell me why there is such a spread between the cost per gallon of gasoline at Niagara Falls, New York, and the cost of gasoline per gallon at Niagara Falls, Ontario? I have not bought any, but I am credibly informed that it is nine cents per gallon in Niagara Falls, New York, and twenty-six cents per gallon at Niagara Falls, Ontario.

Mr. BOTHWELL: That comes under distribution.

The WITNESS: Yes, sir. That comes under Mr. McNeil's jurisdiction. I might say to the Committee that I do not know whether I will be here again or not.

Mr. BOTHWELL: We will have to have you here in connection with the audit.

The WITNESS: If not, I want to thank the committee for the kind consideration they have extended to me during this evidence. I appreciate it very much.

Witness retired.

JOHN MCNEILL, called and sworn.

By the Chairman:

Q. Mr. McNeil, will you kindly tell the committee what your position is in the Imperial Oil Company?—A. Director in charge of sales.

Q. How long have you held that position?—A. One year.

Q. How long have you been with the company?—A. Twenty-six years.

Q. What position did you hold before you undertook this a year ago?—A. I was manager in charge of refined oil and gasoline sales.

Q. Mr. McNeil, we are going to ask you about distribution and cost of distribution of your products throughout Canada?—A. Yes, sir.

Q. Would you like to outline in a preliminary way the method adopted by the Imperial Oil Company?—A. I don't just get the question exactly, Mr. Chairman.

Q. Would you like to outline in a preliminary way, before the committee questions you, the method you employ in distributing gasoline throughout Canada?—A. Yes, the gasoline is distributed by tank wagons, tank cars, service stations, tank steamer cargo lots, principally.

Q. Do you employ a zoning system?—A. Our prices are based on a zoning system, yes, sir. They are zoned within a one cent radius of one another, five or six zones in each division, and there is usually a difference of a cent per gallon between each of the zones.

Q. Do those zoning divisions radiate from the refineries?—A. Well, the zones are made according to provinces, and the prices in those zones bear more or less the same relation as the cost of freight on imported gasoline. For example, I might take the price in the Maritime Provinces. It is higher, by about the difference in the freight from competitive sources such as Pennsylvania. I have a figure here that probably will be a little more explicit than that. Our average selling price of gasoline—this is our tank wagon selling price—in western Ontario, which is the lowest price prevailing in Canada, is 17·57 per gallon.

By Mr. Donnelly:

Q. For what period?—A. Present day prices.

Q. Where, in western Ontario?—A. Yes. That would be London, Hamilton, Galt, Preston—all those points. There are two zones in western Ontario. In one zone the tank wagon price 17½ cents and the other small zone is 18½, and the average price, according to the gallonage sold in those two zones is practically 17½ cents.

By the Chairman:

Q. Before going into the prices in any of the zones, will you kindly outline to the committee the geographical confines of those zoning areas, so that we will get a picture of the whole country before you start in with any particular territory?—A. I was taking Hamilton Division as a basis; it is the lowest price in Canada, and I thought I could indicate from there, or rather show, the relation of the price in Hamilton territory to other zones. All the other zones would be more or less in that same relation, and the relation would be the difference in freight in getting the goods there from a competitive area. For example, take in the Maritime provinces the average freight per gallon is 6·11 cents. The freight per gallon from Pennsylvania to this western Ontario zone is 3·05 cents, so the difference in freight to get it from Pennsylvania to Halifax, or to the Maritime provinces, as compared to this western Ontario zone is 3·06 per gallon. Adding this 3·06 to the 17·57 price of that zone gives you a price of 20·63 cents per gallon in the Maritime provinces. That compares with the price that we have established there all through the Maritime provinces of 20 cents per gallon. There is that slight difference of about six-tenths per gallon.

By Mr. Bothwell:

Q. Do I understand you right, Mr. McNeil, when you say that the average freight to the Maritime provinces is 6·11?—A. From Pennsylvania.

Q. From Pennsylvania?—A. Yes, sir.

Q. And you then fix your price with relation to that freight rate?—A. Yes, sir.

Q. From Pennsylvania?—A. Yes, sir.

Q. Although you have your refinery in Halifax?—A. Quite so.

Q. Why is that?—A. Well, that is what we consider the proper relation of the price, and the price has to be competitive.

Q. In other words, by adding freight that you do not pay you hold your price just under what a competitor can sell?—A. No, the relation of our price is the relation of the freight differential. That has no bearing particularly on what the price may be. The relation of one district and another is made up by that difference in the freight from the competitive area.

Q. Yes, but you do not bring gasoline from Pennsylvania?—A. No.

Q. So that you do not pay that 6.11?—A. No, we don't.

Q. And you manufacture your gasoline right in the Halifax refinery?—A. Quite so.

Q. But still you add the Pennsylvania freight rate to the price of your gasoline?—A. Quite right, sir. If we had no refinery in the Maritime provinces that would be the relation of the price in the Maritimes as compared to Western Ontario.

Q. And Hamilton, you say your freight is 3.05?—A. Yes, sir.

Q. And where do you get your gasoline?—A. Largely from Sarnia.

Q. And what is your freight rate from Sarnia to Hamilton?—A. I have it here. Roughly about two cents a gallon I would say, Mr. Bothwell.

Q. Just when we are on that, there is another comparison I would like to make. In Three Rivers, Quebec, you get your gasoline from Montreal, I presume?—A. No, I believe it comes from Halifax.

Mr. BOTHWELL: Well, we will go into that later.

By Mr. Donnelly:

Q. I would like to ask Mr. McNeil, when he is going over those prices, first of all to take the zone as he speaks of it—Hamilton—for the year 1930; take the average price that you paid, or that you sold in carload lots, in tank car lots in Hamilton for the year 1930, the average for each month of 1930; and then 1931; and the average price that you have sold in tank wagon lots in 1930 and 1931, and the average price of the service stations in the same way at Hamilton for the years 1930 and 1931, in order to compare the two prices one with the other?—A. I have not got that information. I have with me here the results we get on all the gasoline we sell in the western Ontario or Hamilton section.

Q. Yes, but you have your wholesale prices for your tank cars?—A. Yes. Tank car prices vary.

Q. I know, but you can get the average for the months for us.—A. Yes, it is very easy to obtain it.

Q. And you could do the same thing with your tank wagon, the average price in that connection?—A. Yes, we will get that information for you, Dr. Donnelly.

Q. Well, we would sooner have it fairly accurate.—A. Yes. Well, I have not got the information in that way, but I have a figure here which gives you what we realized on gasoline in that western Ontario section; that is, service station price and tank wagon price, etc.

Q. That does not tell us anything, in my opinion.—A. Well, the prices are largely based on tank wagon price. The retail prices are so much above that tank wagon price. All through western Ontario, in 1930 and 1931, it was 3½ cents per gallon, that is, the difference between tank wagon price and service station price. The tank car price to-day below the tank wagon price is three cents a gallon, or approximately that in that section. The service station price varies between 3½ cents above tank wagon and 4 cents above tank wagon right from coast to coast. Most places are 3½, some are 4, and the open tank car prices vary all the way from 3 cents per gallon below the tank wagon price to 5 or 5½ below the tank wagon price.

By the Chairman:

Q. The prices you are giving are the differences between tank wagon and tank car?—A. Yes, sir.

Q. In western Ontario?—A. Yes, sir.

Mr. BOTHWELL: Mr. Chairman, we are just jumping from one place to another in this. I think we had better start out with the wholesale price of gasoline at their various refineries.

The WITNESS: We have no base wholesale price at the various refineries, Mr. Bothwell. As I say, it is from 3 to 5½ cents below the tank wagon price at various points.

Q. Supposing I want to buy a tank of gasoline from your Regina refinery to-day, can you give me a price on that?—A. Yes, sir.

Q. Well, then, cannot we get the wholesale price then at those various refineries?—A. Yes, sir, we could very easily do that.

The CHAIRMAN: What you call the tank car price?

The WITNESS: I will get the tank car price at Regina.

By Mr. Baker:

Q. Does the company work on the basis of quoting a price to the purchaser f.o.b. the refinery or f.o.b. a certain town for delivery?—A. Our prices have practically no relation to the freight from the refinery to the point where a price is required. It is based on the relation between freights from the source of supply in the states, and that carries right through the whole picture. We have no base price f.o.b. Regina. We have a price that we would sell a tank car for in Regina. I have not the figure here, but it would have no relation to the cost of getting it from Regina.

By Mr. Bothwell:

Q. That may be. We will come to that later. But I want to get the price for specific dates, say 1930 and 1931, at which you sold gasoline at your different refineries in tank car lots. I think that is a reasonable question, Mr. McNeil.—A. I believe you are under the impression that we have a base price at Regina for tank car lots and we have not.

Q. There will be a different price in Regina to what there is in Vancouver on the same day, and I want to get what those prices are.—A. I will be glad to get the prices for any period you care to name.

By the Chairman:

Q. Have you the tank car prices at a given date at all the refineries now?—A. Not right here. I have to-day's prices.

By Mr. Bothwell:

Q. To-day's prices at the different refineries?—A. At any point in Canada, and not based on any refinery.

Q. Well, now, I do not know whether we are at cross purposes or not, Mr. McNeil, but you say you can give us a price to-day, you can quote us a price for a carload of gasoline at Halifax?—A. Yes, sir.

Q. Well, that will be at your refinery, won't it?—A. It will be the same price at the refinery as it is 200 miles away from the refinery. It will be exactly the same price, Mr. Bothwell.

By Mr. Donnelly:

Q. What do you mean by 200 miles away?—A. Well, in the same zone, Mr. Donnelly. The freight rate from Pennsylvania to all points in the Maritime provinces is exactly the same.

By Mr. Spencer:

Q. That means that you are selling gasoline in Winnipeg cheaper than you are selling it for in Regina?—A. Quite so. I believe Winnipeg is not supplied from Regina. It practically all comes from Fort William. But some may be supplied from there, and the price would be exactly the same.

Q. The evidence brought out at the investigation at Regina established that. —A. Between Regina and Winnipeg there is a difference of about 4 cents a gallon, and that represents about the difference in the freight from Oklahoma and Texas to Regina as compared to Winnipeg.

By Mr. Bothwell:

Q. We will take those different places where your refineries are located and find out what the prices are to-day.

The CHAIRMAN: Beginning at Halifax.

The WITNESS: The reason for the price being the same at points 200 miles apart is because the freight rate from Pennsylvania to those points is exactly the same, and that is why the prices are the same.

By Mr. Donnelly:

Q. What is it at Halifax?—A. 17 cents a gallon, for tank cars—20 cents tank wagon, a difference of 3 cents.

By Mr. Bothwell:

Q. What is your retail price?—A. 4 cents over the tank wagon price which would be 24 cents.

By Mr. Donnelly:

Q. Now, Montreal?—A. Montreal 17½ cents. The tank car price there is 12½ cents and the service station price is 21 cents.

Q. Why is there the big difference between tank car and tank wagon?—A. There is a difference of 5 cents. That is local competition, or local competitive prices. I said 12½ for tank cars. That should be 13½ cents there, a difference of 4 cents. There is a local competition down there that we have to meet.

By Mr. Bothwell:

Q. What grade of gasoline do you have there?—A. That gasoline I am speaking of is a regular grade of white gasoline. Not our trade mark brand. It is gasoline we sell to the middleman or jobber.

By the Chairman:

Q. What is the retail price in Montreal?—A. The retail price is 17½ and 3½, 21. That is the retail price of our 3-Star gasoline there.

By Mr. Stanley:

Q. The gasoline you are speaking about is the standard gas that we have to put in our cars at the service station?—A. The tank wagon price and service station price is for the standard gas.

By Mr. Donnelly:

Q. What kind of gasoline would that compare with in the United States? —A. It would be somewhere about 64-66 octane.

By Mr. Bothwell:

Q. Then Sarnia?—A. Sarnia happens to be in the western Ontario zone and carries a 17½ cent tank wagon price, the same price as in Montreal. The retail price is 3½ cents above that. Gasoline can be imported into that district from Pennsylvania or the mid-continent field at about the same price.

Q. Your next refinery coming west is Winnipeg?—A. No, the next refinery is Regina. The City of Regina covers a zone probably of 50 mile radius. The tank wagon price is 23½ cents. The service station price is 27½ cents, a difference of 4 cents per gallon.

Q. Tank car?—A. The tank car price,—we will have to get that from another sheet. The price at Regina is 17.90.

By Mr. Donnelly:

Q. Is 17.90?—A. 17.90.

By Mr. Smoke:

Q. As against a tank wagon price of how much?—A. A tank wagon price of 23½ cents.

By Mr. Donnelly:

Q. Where do you get this big difference?—A. I will explain why that is, Doctor Donnelly. That same difference existed at the time when the tariff was changed in September, 1930, and we gave a pledge to the government that there would be no advance in price to retail consumers. In order to keep that pledge 100 per cent, which we have done, we penalized ourselves in that tank car price. It is an unprofitable price and it was originally arrived at when there was no duty on gasoline, and it was distress gasoline, and that relation between tank wagon and tank car price in Regina and all through the prairie provinces was established at that time without duty or dumping duty. We say that we should not have maintained that price. It is an unreasonable and an unprofitable price. These co-operatives out west were classed by someone as consumers. They are no more consumers than we are. They are in competition with us in a wholesale way and they should not have that preference in price, but it was established, as I say, previous to the time the tariff changed and the differential has been maintained ever since.

By Mr. Bothwell:

Q. Those co-operatives that you speak of are still able to buy that gas, are they not, and buy it in at those competitive prices?—A. I would say not, Mr. Bothwell.

Q. They are doing it, are they not?—A. No. I believe they are buying largely from Canadian companies who sell, I believe, more or less on the same basis as we do. They could not bring it in within 3 or 4 cents a gallon of that price. I have the figures, if you would be interested in seeing them, of what it would cost to bring it in, but it would be nothing like our price. And it was never intended that that price would be maintained but it was done so as to meet this understanding, and to keep the pledge. We propose to advance that price in line with what it should be.

By Mr. Spencer:

Q. Did you say that the zone at Regina had only a radius of 50 miles?—A. I am not quite sure, sir, just what it covers.

Q. You are selling gas at Winnipeg lower than you are selling gas at Regina?—A. That is on account of competitive gas from Texas and Oklahoma. You can land gasoline from that Oklahoma-Texas field into Winnipeg at 4 cents a gallon less than you can into Regina, and that is the difference between the selling prices there.

By Mr. Bothwell:

Q. Can you give us the Winnipeg prices right now?—A. The tank wagon price at Winnipeg is 19½ cents per gallon.

By Mr. Donnelly:

Q. Tank wagon?—A. Yes.

By the Chairman:

Q. And tank car?—A. The tank car price at Winnipeg is 15.70—the same relation between tank wagon and tank car as was established previous to September, 1930.

By Mr. Bothwell:

Q. That would give you retail at Winnipeg— —A. 3½ cents difference would make it 23 cents, and the tank car price is 15.70. As I say, the difference between the freight from Oklahoma and Texas, between Regina and Winnipeg. To Regina the freight is 10.60 and to Winnipeg the freight is 7.40, a difference of 3.20 per gallon.

By Mr. Donnelly:

Q. You say on tank car lots the freight on gasoline from Oklahoma to Regina is 10.60 a gallon?—A. Yes, sir, Regina city, $1.32 per hundredweight. At eight pounds to the gallon that gives you 10.60 and to Winnipeg it is 92, or practically 7.40.

By Mr. Spencer:

Q. Does the Imperial Oil enjoy a substantial preference in freight rates upon its refined gasoline from the States to Regina?—A. No, sir, it pays the regular published rates the same as everybody pays.

By Mr. Bothwell:

Q. Then, Calgary?—A. The tank wagon price, city of Calgary, is 21 cents. The service station price 3½ cents above that would be 24½ cents. The tank car price is 19.40. The competition in that section, I might say, is from Montana.

By Mr. Stanley:

Q. It does not seem to be from Turner Valley?—A. Probably both, doctor. We have lots of it.

By Mr. Spencer:

Q. Why is not your competition more keen from Turner Valley?—A. Probably it is, sir. It is pretty hard to gauge the relative keenness of competition. I would say it is very keen in Calgary. There are two or three refineries around there, and one or two in Winnipeg. Competition is very keen all over.

Mr. Stanley: It is so keen they are losing money.

The Witness: I would not be surprised because we are almost losing, judging from the figures Mr. McCloskey submitted. We feel that the relationship between our prices are equitable, that is, as between one district and another. There may be some difference of opinion about that, but someone's opinion has to be taken on those matters and mine has been taken.

By Mr. Bothwell:

Q. Then can you let us have Vancouver?—A. Yes, sir. The selling price of gasoline, tank wagon, Vancouver, 19 cents; the service station price at Vancouver is 23 cents, and the tank car price there is 16 cents.

By Mr. Donnelly:

Q. Mr. McNeil, do you say that the freight from Oklahoma to Regina is $1.32 per hundred pounds?—A. Yes.

Q. What weight per gallon have you figured on?—A. Eight pounds. We take the eight pounds for even or easy figuring. We feel that our prices should be in tenths rather than in smaller decimals, that is, tank car prices.

Q. Well, even at that, Mr. McNeil, take the prices in the different fields, take the tank car price down in Oklahoma—have you the tank car price at Oklahoma?—A. Yes, I believe I have the figure here, a recent one. It is somewhere in the neighbourhood of 3⅞ cents per wine gallon.

Q. What gasoline is that?—A. I would say that is gasoline, commercial gasoline around 60 octane.

Q. What do you say it is now?—A. 3⅞ per wine gallon is the figure I have here, March 15. You add 20 per cent to that to bring it to the equivalent of the imperial gallon, which would make a total of 4·65 per imperial gallon.

Q. Then, you have your freight?—A. You would add that also to bring that to the Canadian price, you would have to add exchange 12 per cent, which would be ·558, duty chargeable 2½ cents per gallon, and that would bring the price to 7·708. Then you add sales tax, excise tax, 5 per cent to that 7·708; 5 per cent is equivalent to ·385 making a total of 8·093. Now, to bring that to Winnipeg, the freight would add 7·40 to that. Place the surcharge on freight, which I believe is about 8 per cent of that 7·40, which would be eight times 7·40, ·59. That would be 16·08. I might say of course, that is the price without dumping duty. The dumping duty would increase that from ·3875 to 5·083 per wine gallon.

By the Chairman:

Q. What difference would that make on the total cost?—A. It would be a difference on the total cost—I believe the difference would be 1·70 per gallon.

By Mr. Bothwell:

Q. That is what?

The Chairman: It is 16·08.

Witness: 16·08 with dumping duty on present basis raises that price, I would say, 1·70 per gallon or 17·78 at Winnipeg.

By the Chairman:

Q. At what point?—A. We brought that to Winnipeg, Mr. Chairman.

By Mr. Bothwell:

Q. Surely there must be some mistake about that, because you are selling at Winnipeg at 15·70. We have this figure now up to 17·78.—A. That is what it would cost you to bring imported gasoline into Winnipeg. So it would be a difference of two cents higher in price than we sell it for.

By Mr. Donnelly:

Q. Will you take the same thing in regard to Seattle and Vancouver?—A. I am not familiar with what the tank car prices are at Seattle, Mr. Donnelly. I believe there is a price war on there, and you can buy gasoline at almost any price out there. I believe last year at one time you could buy it at less than the road tax. I think the road tax was six cents a gallon, and some dealers were selling it at five cents.

Q. Where do they get their gasoline?—A. At Seattle. I would think it would come from the Pacific coast ports such as San Francisco or Los Angeles.

Q. Where would your competition be in Vancouver?—A. Well, it is liable to be from anywhere, group 3, Pennsylvania, etc.

Q. It would be brought up in boat to that spot?—A. Yes. If people had the facilities to bring it by boat.

Q. However, it would be from San Francisco and Los Angeles?—A. Yes, I believe it would come from San Francisco or Los Angeles, or some of those Pacific Coast ports.

By the Chairman:

Q. I think it is important to have the price on the coast.—A. Yes; I have our own prices on the coast, probably the National Petroleum News would give you some information as to what the prices are there, particularly service station prices and tank wagon prices. I do not believe there is any tank car price published there, Mr. Chairman.

By Mr. Donnelly:

Q. Where is that?—A. I was referring to Seattle, Mr. Donnelly.

The CHAIRMAN: The committee would like you to go into the question of supplying gasoline to fishermen.

WITNESS: Yes, we will be glad to do that. We sell fishermen gasoline, both coasts at exactly the same price that we sell to the wholesaler. I believe fishermen, though, are usually a little hard up for money, and they probably have to depend to be financed by the fishing supply houses, who probably charge them a few extra cents a gallon for carrying charges. But our price to the fishermen is exactly the same price as we charge to any large distributor, 20 cents a gallon in the Maritime provinces, and 19 cents per gallon in Vancouver.

By the Chairman:

Q. Can you give me the price at which you are selling to fishermen to-day?—A. Nineteen cents.

Q. On the west coast?—A. At Vancouver, 19 cents.

Q. Tank wagon prices?—A. Tank wagon or barrel price to retailers, and the fishermen get the same price.

Q. Fishermen are able to buy gasoline at Seattle at a very much lower price than that?—A. No doubt they can, Mr. Chairman. Prices in Seattle are very very low. I say, they are having a price war there pretty nearly every day or so, and no doubt the fishermen get the benefit of the price war.

By Mr. Bothwell:

Q. At Vancouver you say 19 cents per barrel to the fishermen and on the east coast it was what?—A. Twenty cents per gallon, yes, sir.

Q. Now, this zoning system you speak of, you might just clear that up. Take for instance in the province of Saskatchewan, how many zones have you in that province?—A. I have got the figures right here, Mr. Bothwell. We have five zones in the province of Saskatchewan, ranging from 22½ cents per gallon to 26½ cents per gallon, 22½, 23½, 24½, 25½ and 26½.

Q. Now, would you be good enough to take the different towns in Saskatchewan. Take for instance a town— —A. I have a lot of them.

Q. Take for instance, the town called Cadillac.

The CHAIRMAN: That is the name of a car, not a place.

The WITNESS: Where is that, Mr. Bothwell.

Mr. BOTHWELL: Straight south of Swift Current.

Mr. DONNELLY: On the Weyburn-Lethbridge line.

The WITNESS: Well, the price at Regina is 23½ cents. I have not the price for Cadillac.

By Mr. Bothwell:

Q. You have not got Cadillac?

By Mr. Donnelly:

Q. Have you got Assiniboia?—A. No, I have not.

Q. What zone is that in? It is south of Moose Jaw.—A. I am sorry I have not those prices.

By Mr. Bothwell:

Q. What I want to get at Mr. McNeil, is this. You have a different price, for instance, in Swift Current and Cadillac, both equidistant from the— —A. If they are different I would say, Mr. Bothwell, that the freight rate from the mid-continent field would be higher to one point than the other, either mid-continent or Montana. It depends on the rates from the mid-continent field or Montana; if they are the same from the mid-continent field I would say the prices would be the same in a general way.

Q. Can you give me some idea of the territory comprised in those five zones?

By Mr. Donnelly:

Q. Give us the Regina zone; where does it start?—A. The Regina zone is 23½ cents.

Q. What territory does it take in?—A. I would say it would take in practically all the stations that would carry approximately the same freight rate from the mid-continent field there, and that is the way that those zones are made up, and grouped. They have relation to the difference in freight from one zone to the mid-continent field, and another zone to the mid-continent field.

By Mr. Bothwell:

Q. Doesn't it strike you as unfair that you can buy gasoline a cent cheaper in a district in which it is more difficult to get freight into than you can in another zone?—A. I would not think it would be strange at all, Mr. Bothwell. It is a fact that some of the southwestern Saskatchewan territory is supplied from Montana, where there is a different set of rates altogether, and much lower prices, that is equivalent to group 3—

Q. How is it supplied from Montana, if you cannot get gas in from Montana except at a higher price than you are producing?—A. That is the point. We would supply it from there if we did not have a refinery at Calgary and that is exactly where it would come from.

Q. Do you know of Brock in Saskatchewan?—A. Yes.

Q. You can buy gas there two cents cheaper than you can in Swift Current, which is on the main line of the C.P.R. Why is that?—A. I say if it is a fact it has a relation to the freight rates. The freight must be less to Brock than to Swift Current.

Q. From the mid-continent field?—A. Yes, sir. That is the way the prices are based.

Q. The freight rate from mid-continent field may bear no relation to the freight rate from Regina to those points?—A. Quite so. If we have no refineries at Regina, it would have to come from the mid-continent or Calgary, or Fort William or somewhere. The Saskatchewan people get the benefit of the pay-roll of the plant there at Regina. The Regina refinery was never put there to supply the zone near Regina at all; it was put there to supply the zones as far as it could do it economically, compared with other refinery points.

Q. How do you arrive at those prices that you fix? For instance, you say to-day the price at Regina is— —A. It is 23.50.

Q. It is 23½ tank wagon at Regina. How do you come to fix that particular price, 23½ cents?—A. I would say that the price was fixed at Regina on purchased shipments, before we had a refinery at Regina at all.

Q. Are you the man who fixes prices?—A. I fix the relation of one district to the other, the board of directors decides to change the prices.

Q. How is that price arrived at for Regina?—A. I would say the difference of that 3½ cents at Winnipeg was established before there was any refinery in Regina at all, when we were importing gas from the mid-continent field, and that is the way your competitor has to do to-day, and you have to meet competition.

Q. You have changes in Regina. You have changed the prices in Regina from time to time?—A. Yes.

Q. You have not maintained that 23½ cents?—A. It has changed as crude oil changed. Crude oil goes up and down, and that 23½ cents is quoted up or down.

Q. What price would crude oil have to be, what change in the price of crude oil would make one cent difference in a gallon of gas?—A. Mr. McCloskey can answer that question better than I can.

Mr. McCloskey: Approximately twenty cents a barrel in the price of crude.

By Mr. Bothwell:

Q. A difference of 20 cents in the price of a barrel of crude will make a difference of one cent a gallon in gas?

Mr. McCloskey: Approximately, yes.

Q. That will apply throughout all your oil plants in Canada?

Mr. McCloskey: More or less.

The Witness: As those crude changes occur, the prices are generally raised or declined to that extent.

By Mr. Bothwell:

Q. Can you tell me how the price of the original product before you started a plant, would make a fluctuation in the crude— —A. It was based on the cost of the material that we imported from the mid-continent field, plus a margin of profit. We had to buy it there at whatever price we could buy it, bring it into this district there, and sell it on the basis of our cost, plus a reasonable profit. That established the relation of prices that are there to-day.

Q. Then, following that up, you apparently fixed your price for gasoline some years ago, and since that time you have only varied it according to the cost of the crude?

Mr. McCloskey: No, Mr. Bothwell.

By Mr. Bothwell:

Q. I would like to get how you are fixing those prices?—A. You have to change prices to meet competition, even if crude prices do not change. You have to protect your investment, and meet competitive prices.

Q. Now, you produce, we are told, some 712 different products. How do you fix the price of gasoline out of those products. That is, if we understand from Mr. McCloskey, you say that you figure your cost of producing from the realization you have, out of all your products.—A. Yes.

Q. And gasoline bears a certain proportion of the total costs. How do you arrive at that proportion?—A. You arrive at that by competition. If we were competing with gasoline, that would establish that price.

Q. Well now, you have got up against competition and have abandoned that for the fixing of prices?—A. No, we have not; we never could.

Q. What you are doing is this. You are maintaining your prices, and having governments prevent competition.—A. To make it profitable.

Q. You are raising your prices and lowering your prices according to the costs of crude?—A. In a general way yes, and competition.

Q. What I want to get at is, how you fix originally your cost of gasoline at $23\frac{1}{2}$ cents a gallon. The way you do it would be this, as near as I can understand from the evidence of Mr. McCloskey and yourself, Mr. McNeil. You compute your costs of manufacturing those different products from what you realize out of the products?

Mr. McCloskey: That is correct.

By Mr. Bothwell:

Q. You originally fix those costs on those various articles by reason of the competition that you had?

Mr. McCloskey: Fix the selling price.

Mr. Bothwell: According to competition.

Mr. McCloskey: Yes.

By Mr. Bothwell:

Q. Now, it comes to the stage that you are not able to compete with a foreign producer of gasoline for some reason or other. One reason you have given is that there was in the United States a gasoline war. Well, I guess, there is a gasoline war on, but I tell you I do not think it accounts for all the difference in prices?—A. There is this tax evasion and distress gasoline of companies over there.

Q. Since you had to abandon fixing of prices on the basis of competition, you have adopted another method of fixing your prices; that is, you are fixing your prices now according to the cost of crude?—A. We are following—

Q. Competition originally is the basis of work there?—A. They are varied according to the cost of crude?

Q. What I want to get at is this, how you find under that method of computation, what the proper price of a gallon of gasoline is at your refinery?—A. Well, if it was lower than it is, Mr. Bothwell, we would make no profit at all.

Q. It does not make any difference whether lower or not, it might be some other—A. Not at all. We have got to make a profit. A cent a gallon is certainly not an unreasonable profit on that price. We have established as a return a cent a gallon of profit.

Q. —factor. It may be gasoline is at the right price, and lubricating oil is twice too high. There must be some way of arriving at the cost of producing those different products?—A. Well, Mr. McCloskey will get you that.

Mr. HOWARD: May I say this, Mr. Chairman, before I put a question. From the evidence that has been brought out, we have learnt at this stage, as I see it, that the price of gasoline in Canada is regulated on the basis of the cost of the raw material, plus charges that go with it and different profits, and legitimate profits on the amount of shares. Now, I do not think there is any question about that as being a fair way to compute it, but on the other hand you realize that is not the way that most businesses are carried on at the present time in Canada. Take for instance the lumber business. The lumber business, the cost to-day probably $25 a thousand, and he is selling lumber at $15 a thousand, a difference of $10 below the cost. In other words, he has to meet the conditions as they are. The bank situation is the same way, cotton the same way, and the farm the same way. It does not make any difference if the cost of the production of the steer is 7 cents a pound, he can only get 4 cents for it at the market. Now, it seems to me that we are altogether wrong in getting at this in this way. If we establish the basis that the Imperial Oil have the right to fix their price to the consumer in Canada on the price of gasoline, on the cost of their raw materials, plus their collection charges, and the pipe line charges, plus taking it to the refinery, and the cost of refining and the by-products that come out of that, putting money back, and then their distribution costs, their jobbers' profit, their retailers' profit, and then the profit legitimate on the capital stock of the company, and that is the consumer's price, well, we may as well stop here, as far as I can see.

By Mr. Bothwell:

Q. In other words, if I might just finish that, there might be, out of those 712 products, 700 of them that were losing money, and they are adding the loss of those commodities on to gasoline and lubricating oil.

Mr. HOWARD: In other words, we are singling out the oil and gas industry in Canada and placing it on a basis, as far as the consumer is concerned, that is contrary to all rules of ordinary trade, and to the detriment of the consumer in Canada. There is no question about that.

Mr. DONNELLY: I understood Mr. McCloskey to say, the other day, for example, he would get something like 40 per cent of gasoline out of crude oil.

Mr. BOTHWELL: Fifty-one.

Mr. DONNELLY: I thought he said 40. I thought he said 60 per cent of the profit was made out of gasoline.

Mr. MCCLOSKEY: Sixty per cent of the cost is applied to gasoline.

Mr. HOWARD: Take the town of Sherbrooke, the standard price of gasoline is 32½ cents at the pump. We are 34 miles from the American boundary line. You can drive across the boundary line on a concrete highway, 34 miles, fill up your car with any amount of like at 16½ cents a gallon. Now, that means the Canadian consumer is paying a difference over the American consumer on the other side of the line, within 34 miles, of 16 cents a gallon.

Mr. MCCLOSKEY: Sixteen cents, the same gallon?

Mr. HOWARD: I am not quoting those figures to show the spread in prices at all. Supposing we wanted to do justice to the Canadian consumer. You know that we can go into the markets of the world to-day and buy gasoline from Roumania, from Turkey, and from certain countries that you know of, and bring it in in tank steamers to the city of Montreal, and reduce the price of gasoline in Canada to practically the price that it is distributed in the United States, except 2½ cents duty. I do not think we are acting fairly with our consumers.

Mr. McCloskey: You would not have any oil industry in Canada.

Mr. Howard: All right. We will not have any lumber industry in Canada if things go on the same as they are to-day. Why should not the same thing apply to the oil industry. Why should the oil industry not take its chance with the rest of us.

Mr. McCloskey: You mentioned farm products. Does the farmer get no subsidy from the government?

Mr. Howard: Subsidy? I do not think he gets any more than the Imperial Oil does.

Mr. McCloskey: What about his wheat? You say he does not get as much as the Imperial Oil does? He got a bonus on wheat.

Mr. Bothwell: He did one year.

Mr. McCloskey: Why should an oil company not have any protection?

Mr. Stanley: Mr. Chairman, we are investigating the cost of gasoline, and we are trying to get at the cost of distribution. I would suggest we stick to our investigation.

Mr. Howard: Have you read the resolution carefully, Mr. Chairman? It says: "Insofar as the price of gasoline to the Canadian consumer has for some time past been too high that this matter should be referred to the select standing committee on banking and commerce to investigate and report." Now, I think that if we get down to that section of it, we should find out what you can get gasoline in Canada for, by buying it in the open markets of the world, regardless of the refineries. Then you will have a true picture before you as far as the consumer is concerned.

Mr. Bothwell: I think, Mr. Howard, we will have to continue to get at those prices, and the methods of distribution.

By Mr. Bothwell:

Q. Your argument is, to sum up the evidence as far as we have got it now, and I think it is a matter of conclusion afterwards—

Mr. Howard: I do not want the meeting to close without taking up what we can buy gasoline for in the open market.

Mr. Donnelly: This was worked out by some man in the Department of National Revenue. It was not Mr. Breadner, I have forgotten his name, but it was worked out for duty purposes under this dumping clause. Now, we want that man here to tell us how he arrived at those prices. We want to know that. We have to have him here yet.

Mr. Howard: That is all right if we will take it into account at a latter stage.

The Chairman: There is no disposition to close the enquiry.

Mr. McCloskey: May I ask this, are we the only industry in Canada that is receiving any dumping protection?

Mr. Howard: No, I am not referring to that.

Mr. McCloskey: There are many industries in Canada that are receiving dumping protection.

Mr. Howard: There is no doubt of it.

Mr. McCloskey: There are many industries in Canada that are receiving protection in that form.

Mr. Pettit: Because of the reduced prices in Roumania, we cannot say to the Imperial Oil, you have to come along and meet that price.

Mr. Bothwell: I think we had better stick to those prices.

Mr. McCloskey: Just one moment. In connection with the question. Do you want the people of Canada, the workingmen, to live under the same conditions and so forth that the people of Roumania are living and working under to produce this gasoline?

Mr. Howard: We want the Imperial Oil to take their chances in the Canadian field just as any other legitimate business has to do.

Mr. McCloskey: Then, you do not care anything for the condition of the working people to-day in Canada, as compared with those people of Roumania?

Mr. Howard: What about the lumber business? Do you care anything about that, or the bankers?

Mr. McCloskey: I am asking this question: we have a certain standard of living in Canada, that the Roumanian people do not approach. Do you want to put the Canadian workmen on the same standard of living as the Roumanian workmen?

Mr. Howard: I cannot give you any other answer than what I have given you.

Mr. McCloskey: What is that?

Mr. Howard: That you are facing this investigation, and you say that the consumer has now to pay for the price of crude in the open market, plus transportation to the refinery, plus the refining charges, plus the delivery distribution charges, plus your own profit or profit to the jobber, plus your profit and your retailer's, and then the legitimate profit on the capital stock of the Imperial Oil. If that is the case, then there is no use discussing this matter any more. The principle is wrong. You have got to do as the other industries.

Mr. McCloskey: Why have an industry in Canada at all?

By Mr. Bothwell:

Q. I would like to ask you another question. I asked you about Three Rivers this morning. You could not tell where the gasoline is shipped from to Three Rivers.—A. Not off hand; I believe, possibly, from the Montreal refinery, or maybe the Halifax refinery through Levis.

Q. Where does Ottawa get it?—A. Ottawa gets its supply from Montreal east.

Q. I presume if you could ship from Montreal to Three Rivers as cheaply as you could get it from Halifax, you would likely get it from there?—A. That is correct, sir.

Q. Can you tell me why the price of gasoline is three cents higher in Three Rivers than in Ottawa?—A. Yes. There is a difference in the freight rate to get it to the zone in which Three Rivers is located, as compared with the freight cost to get it to Ottawa. That is the difference.

Q. A statement was made that where the price was fixed there, you charged a Chicago freight rate, from Chicago for instance, to Ottawa, and from Chicago to Three Rivers.—A. No, it is based on Pennsylvania, the difference in Pennsylvania rates, Mr. Bothwell. And the price in the Three Rivers zone, you will probably find, will be just about the same as the difference in the two prices; the selling price at Ottawa, Three Rivers and zone, probably would be two cents per gallon. That is about the extra freight from Three Rivers zone over the freight in the Ottawa zone, based on the Pennsylvania shipment.

By Mr. Howard:

Q. From the mid-continent field.

By Mr. Donnelly:

Q. It would be about two cents?—A. That would be about the difference in freights. I have the freights to some of the Montreal zones.

Q. Can you give us the freight to Three Rivers?—A. I have got the freight here for the whole Quebec province, the whole average of the Quebec province from Pennsylvania as compared with the average in other provinces.

Q. That would not exactly get these two points that I wanted.—A. Of course, Three Rivers is not a zone. Probably it might be the low price point in the zone. The zone might take in a place further away, where the extra cost would be another cent a gallon. Those zones are averaged, do you follow that?

By Mr. Pettit:

Q. How do you account for the gasoline being three and four cents dearer at Oshawa than at Hamilton? I experienced that.—A. I believe you will find the price at Oshawa is exactly the same as at Hamilton.

Q. I paid more.—A. Then, probably some retailer is charging a little extra for profit.

Q. I see. What is the trouble?—A. He is in a different zone. The same prices apply in Toronto and Hamilton. We have the same prices in all those three points.

By Mr. Howard:

Q. In other words, going back to the question of a moment ago. Take Three Rivers, your cost is based on the average cost of crude and the freight rates to Three Rivers?—A. That is right.

Q. Regardless of the price war?—A. Quite so, Mr. Howard.

Q. You base your prices according to crude?—A. Quite so, and the turn out of that price according to the 1930 figures, is 1·01 cents a gallon.

Mr. Pettit: May I ask a question right there that I asked some time ago of Mr. McCloskey? There is a difference of nine cents per gallon in Niagara Falls, New York, and Niagara Falls, Ontario.—A. Of course, that is the whole general question. The American prices are not profitable prices. They are erroneous prices, lawless prices. They certainly are not profitable according to the evidence submitted by Mr. Ross that these companies are losing millions of dollars; that last year they lost millions of dollars as compared with 1928 and 1929, normal years. We figure that these American prices are not equitable prices. We certainly cannot meet them and make any profit. We would have to close up.

By Mr. Pettit:

Q. I am speaking about the price in Niagara Falls, Ontario.—A. It is the same as all over the western points. Gasoline in Niagara Falls, Ontario, is at the same freight cost as other points in western Ontario, and that is the reason why the prices are the same.

By Mr. Spencer:

Q. Does the Imperial Oil pay a duty on American refined oil, for use in blending?—A. American refined oil for use in blending? I do not think we use any American oil for that purpose. If we imported any refined oil, we would pay duty, I believe.

Mr. McCloskey: I presume what you refer to is casinghead gasoline. It does not pay a duty. We import very little.

By Mr. Bothwell:

Q. Now, there was a statement made by Mr. Ross at the opening of this hearing which I would like you to explain if possible. He says: "When you see a service station and see a price posted up, the natural inference would be, that is what we get; but we do not get more than eight cents of that price."—A. He probably might have meant that eight cents was net back to the refinery. I would imagine he would refer to that. I am not sure. Eight cents would get back to the refinery, then there would be five cents road tax, and there would be marketing costs, delivery costs, and everything of that kind.

Q. Just listen to my question. You have quoted your prices on tank car lots at the refinery, or any place else, I guess, in the zone running from 13½ cents to 19·4 cents, which seems to me to be the price that you receive at your refinery. I cannot make that coincide with Mr. Ross' statement that all you get is eight cents?—A. I do not know just how Mr. Ross figured that eight cents out at all.

Q. Now, you allow a difference between the tank wagon and retail price of from— —A. Three and a half to four cents.

Q. Three and a half to four cents. In Saskatchewan a year ago, I think you delivered gasoline around to farms, that is, your agents, at a cent a gallon, for making delivery. Is that correct?—A. We paid our agents a cent a gallon for making deliveries last year to the farmer,—the farmer didn't pay any of the cost, he got delivery free.

Q. Well, my recollection is 2½ years ago, there was a cent a gallon additional charge there.—A. It was a couple of years ago, there was no additional charge, we paid the agent the extra cent, and we absorbed that. But last year we had the agent collect it from the farmer himself. In other words, the farmer paid the cent extra for delivery last year, but he did not do it the year previous.

Q. Well then, on that gasoline that you have delivered in the country at a cent a gallon, the agent then would be drawing from a cent more, as I see it, a gallon— —A. That is right, he made the delivery and was paid for that at a cent a gallon. A year ago we paid for it, and this year the farmer has paid it.

Q. Are all agents paid a commission?—A. Ninety per cent of them in the west, in the western prairie provinces, work on a commission.

Q. Are these agent paid a commission by you people?—A. Yes, sir.

Q. Under those retail profits we spoke of, service station differentials, the agents get 1½ cents on the gasoline they deliver in a town, then they take it out to the farmer, and charge the farmer another cent a gallon from the farmer? —A. He gets 3½ cents to deliver it to the farmer, and 1½ cents for deliveries in town.

Q. That is, in stations owned by you?—A. We own all our stations.

Q. In other stations that sell Imperial Oil that is owned by the agent themselves— —A. No.

Q. —I mean, where these deliveries are made to the farmer.—A. They are made from our own properties, bulk storage plants.

Q. Well, referring to the agent who owns his own station, he would be able to make a profit in buying from you of 3½ to 4½ cents?—A. That is right. We would charge him the tank wagon prices. He would make the retailers' profit.

By Mr. Pettit:

Q. Do you do much of that?—A. No, very little, but there are still independent dealers.

Q. Are there many independent service stations?—A. Oh, yes. Every man that has got a pump is an independent service station or dealer retailing gasoline.

Q. Not under your control?—A. No.

By Mr. Spencer:

Q. I think we are paying a difference of seven cents a gallon in Alberta?—A. No. The retail prices in the city of Calgary, and the city of Edmonton, are three and one-half cents a gallon above the tank wagon price. That is what we sell it for at our own service stations.

Q. The retailer would be getting a rake-off?—A. Probably in some localities where the oil companies have no service stations, they may charge a little extra. The oil companies do not cash in on that, though.

By Mr. Pettit:

Q. The price to the consumer is equal in all the different zones. Take one particular zone, the price to the consumer from all service stations is the same?—A. Yes. We sell to the farmer, by the way, gasoline and kerosene at the same price as we sell to the dealer. The farmer in the western United States—Minnesota and north Dakota—pays the retail price for gasoline and kerosene which is two to three cents a gallon higher. Those comparisons that have been made in the press of prices at the service stations, show quite a large discrepancy, but if you compare the prices that we charge the farmer for gasoline in the western provinces, with the prices that they have to pay in North Dakota and Minnesota, there is very little difference between them if you convert gallonage and allow for the difference in freight.

Mr. DONNELLY: Some of them I know in my own district are crossing the line and bringing gasoline in and paying the duty.

The CHAIRMAN: And the exchange?

Mr. DONNELLY: That was last year; of course, I don't know what they are doing now.

WITNESS: Practically the only difference there is in the price of gasoline in the western provinces to the farmer compared with North Dakota and Minnesota is the difference in freight between the mid-continent or Texas field to those cities and the corresponding points in Canada, a difference, I think, about three cents a gallon to half a dozen points where the prices are compared.

Mr. MCCLOSKEY: What location was that?

Mr. DONNELLY: Right along central Saskatchewan.

Mr. MCCLOSKEY: Well, the situation in respect to some of those refineries in Montana is this: they had a considerable number of products, like fuel oil which was made for the railroads—they were running primarily for fuel oil, and they had a very good profit on those products. Now, there was a certain market adjacent to the refineries in the United States for gasoline, which was produced from that operation, and beyond that they have not looked for an outlet for either gasoline or distillate, so what they did was to dump that into Canada at whatever price they could get for it.

By Mr. Pettit:

Q. What connection has your company with companies that operate the crude oil fields?—A. Mr. McCloskey will answer that.

Mr. MCCLOSKEY: That was all put in the evidence by me the other day. We have no connection with those fields except with our crude oil fields in South America.

By Mr. Bothwell:

Q. Mr. McNeil, you say there is a charge of $3\frac{1}{2}$ to $4\frac{1}{2}$ cents a gallon, a service station charge?—A. A retail spread.

Q. And there are a few retailers of gasoline selling your gas, who are not on premises that belong to you?—A. Yes.

Q. When you sell to an independent distributor, you fix the price at which he shall sell?—A. Absolutely no, no such thing, Mr. Bothwell. We charge him a tank wagon price for gasoline, and he can give it away if he wants to. No string to it at all.

Q. If he does cut the price, then, you refuse to sell him?—A. If he does cut the price and interferes with our business in a general way, we would absolutely refuse to sell him, if he interfered with our other business.

Q. That was the reason you refused to sell gasoline to the Mercury service station at Oshawa last year?—A. Possibly it would be; I do not know the circumstances of that. But if he was down there and disturbed the trade in the city of Oshawa, and all the other dealers in Oshawa issued an ultimatum that if we supplied gasoline to him they would take their business somewhere else, we would absolutely refuse to sell him in that case. Our policy previous to this year has been that we would sell him in any case, and take a chance on the demoralization of our business, for the reason that we thought it would be illegal to refuse him. But we have some further legal advice that it would be legal to refuse him, and since we received such advice we would refuse to sell any man if it interfered with our business. So, we have done that since the first of the year.

Q. How do you fix that retail spread of 3½ to 4 cents?—A. Well, it is either based on the size of the town, Mr. Bothwell, whether the consumption is lower, and whether the service station gallonage is high. We feel that an operator should have a little larger margin where his turnover is small, than where the volume is greater.

Q. The agent would get the same commission, it doesn't matter where he is, whether in the prairies in the city of Toronto, he gets 1½ cents a gallon.—A. Of course, agents in a general way do not retail gasoline, Mr. Bothwell, they are just simply wholesale distributors for it, on commission.

Q. I am speaking of the service men— —A. He is allowed 3½ to 4 cents; he pays us tank wagon price, and he in turn re-sells it at retail from 3½ to 4 cents above what he pays for it.

Q. I understood you to say you allow your agents 1½ cents a gallon?—A. Those are wholesale distributing agents, nothing to do with retail service station trade, Mr. Bothwell. Our agent really delivers the goods to the independent service station—he has nothing to do with the retailing of it—he just gets 1½ cents commission on the delivery.

Q. From your tanks?—A. From our tanks.

Q. To your service stations?—A. No, to other dealers.

Q. What allowance is made for that which goes to your own station?—A. If it is delivered to our own station, by a commission agent, he would have the same rate per gallon, 1½ cents. It would have nothing to do with the retail price.

Q. I am coming to this; I do not know whether a fellow is running your plant, or whether he is running his own, but I am taking the case of say Swift Current. You have your tanks there?—A. Yes.

Q. You have your agent?—A. Yes.

Q. And there is, for instance, the Great West Implement Company?—A. Yes, sir.

Q. They sell your gasoline. The agent in Swift Current, whether he is paid by salary or commission, I don't know— —A. Probably paid by salary. I am not sure, though.

Q. When that gasoline is delivered to the Great West— —A. Yes.

Q. They sell it for a profit of 3½ to 4½ cents a gallon?—A. I would think so, yes, if that is the retail price established there, yes. He would determine that himself, that particular man.

Q. Now, you run service stations of your own, do you not?—A. Yes, sir.

Q. How do you pay the men in your service stations?—A. We pay them all on salary.

Q. A salary?—A. Yes, those that we operate ourselves.

Q. You derive a profit, then, on the gas you sell. You take as profit the 3½ to 4 cents a gallon, paying your costs of the service station?—A. Quite so, to pay wages.

The CHAIRMAN: Gross profit.

By Mr. Howard:

Q. Just the same as anybody else?—A. Yes.

By Mr. Bothwell:

Q. That is throughout the whole country?—A. They are—

Q. Three and a half to four cents?—A. Yes, that is quite right, sir. We have our own service stations.

Q. How do you arrive at that particular figure, 3½ cents?—A. We feel that the operator cannot make any money if it is any lower. He has to pay wages, to pay light and heat and paint, and all the expenses in connection with running an oil retail business.

Q. Have you any particular service station that you have in mind when you figure it at that amount, and show your costs and so on? I would like to know what ratio of profit you are making on this 3½ to 4 cents a gallon?—A. I do not think we are making very much, if any.

Q. Of course, I think that you are not, but I would like to know what you are making, if anything.—A. We realize a little less than our tank wagon price, and if we pay operating expenses of a service station, sometimes we have to take a little less than the tank wagon price, and where we have a station in which the gallonage is down and small as well, we may net somewhat less than our wholesale price; but on the average we come out pretty close to the wholesale price, probably we may be out a half a cent a gallon or so.

Q. If that is the case then, you are not making a profit there?—A. Not a retail profit.

Q. You are getting the wholesale price?—A. That is correct.

Q. Which means that the independent man cannot exist?—A. I don't know why. He can buy gasoline at tank wagon price.

Q. If you do not make any profit on a service station, the independent man I do not suppose can run it any more efficiently than you can?—A. Sometimes they do. They do not give the service that we give and probably work longer hours, and don't pay as good wages. He works himself, and if he gets in a place where there is a fairly good market, he can make money at that price.

Mr. STANLEY: He does not steal any of his own money, either.—A. No, that is correct, too.

By Mr. Donnelly:

Q. In some of those little towns out through the country, your own man would be looking after your tanks?—A. Yes, sir.

Q. He is responsible for the oil that gets in there?—A. Yes.

Q. He has to sell it and do the collecting?—A. Sometimes, unfortunately.

Q. He has handled it for you people last year and the year before?—A. There are $5,000,000 out there that he didn't get last year.

Q. That was not his fault, because you people decided to give credit yourselves last year. Before that he was responsible for it?—A. Quite so.

Q. He gets $1\frac{1}{2}$ cents?—A. On a gallon, yes.

Q. On the other hand, if you have a man there selling it out and delivering it in tank wagons, he gets a rake-off of four cents. It looks like quite a spread to me.—A. Those fellows who are operating on a four cent margin, that is on the retail, do not operate tank wagons at all, they just supply car owners in small quantities. However, this agent of ours, as I said, gets $1\frac{1}{2}$ cents for inside delivery, and $2\frac{1}{2}$ cents when he takes it outside his town. It is not the same class of business at all, Mr. Donnelly.

By the Chairman:

Q. Do you give credit on gasoline?—A. We have given it, unfortunately, to the farmers in the last two or three years.

By Mr. Donnelly:

Q. This man looking after your tanks, he has a wagon, tank wagon?—A. Yes.

Q. He puts his gasoline into it, and he hauls it out and sells it to different people?—A. Well, he does it for our account.

Q. He delivers it in 400 gallon lots or so, and he gets $1\frac{1}{2}$ cents to $2\frac{1}{2}$ cents commission.—A. The retailer gets $3\frac{1}{2}$ to 4 cents, whether in 5, 3, 2 or 1 gallon lots to car owners.

Q. I am talking about tank wagon, the difference between a tank car and a tank wagon.—A. I thought you said between tank wagon and service station prices.

Q. No, the tank car. These men get gasoline in tank car, and they sell it in tank cars. They take it out in tank wagons, and deliver to the service stations. They get $1\frac{1}{2}$ cents commission for handling it in a tank car, and delivering it to the service station, they get four cents.—A. Yes, he does, but I mean he can buy it in tank cars cheaper than he can in tank wagons.

By Mr. Bothwell:

Q. That means, then, in other words, from the tank to the service station they make a turnover of four cents, and then from the service station the commission on a gallon to the cars nets him another $2\frac{1}{2}$ cents.—A. That is about it.

The CHAIRMAN: Now gentlemen, it being one o'clock, we shall now adjourn sine die.

Committee adjourned.

SESSION 1932

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

THURSDAY, MARCH 31, 1932

No. 6

Reference,—Price of Gasolene

WITNESSES:

Mr. J. Irwin, President, McColl-Frontenac Oil Co., Ltd.; Mr. L. A. Brooks, Comptroller; J. A. Wales, Vice-President and Director; John Pritchard, Gen. Sales Manager.

Appendix,—(a) Documents filed by McColl-Frontenac witnesses; (b) Statement of gasolene prices filed by Imperial Oil, Ltd.

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1932

MINUTES OF PROCEEDINGS

House of Commons,

Thursday, March 31, 1932.

The Committee convened at 10.30 a.m., adjourned at one o'clock and re-convened at 4 p.m.—Mr. Matthews presiding.

Members present: Messrs. Arthurs, Bothwell, Campbell, Donnelly, Ganong, MacMillan, Matthews, McGibbon, Perley, Smoke, Stanley, Willis.

John Irwin, President; L. A. Brooks, Comptroller; J. A. Wales, Vice-President and Director; John Pritchard, General Sales Manager; Mr. Choyce and other officers of the McColl-Frontenac Oil Co. Ltd., were in attendance.

Mr. Aimé Geoffrion, K.C., appeared as counsel for the Company.

Officers of the Company, Messrs. Irwin, Brooks, Wales and Pritchard, were severally called, sworn and examined.

Several of the witnesses offered corrections to the evidence taken at a previous meeting and agreed to file certain statements asked for but not presently available.

Mr. MacMillan moved that all distributing and refining companies be required to submit like statements to those required of the companies named in the concluding paragraph of the Subcommittee report dated March 22, 1932.

Motion carried.

Mr. Pettit moved that a statement be required of other oil companies showing the nationality of the stockholders and the amount of their share holdings.

Motion carried.

At the morning session, upon motion duly made and carried, the Chairman was instructed to apply to the House for leave to sit while the House is sitting.

The Committee adjourned till Tuesday, April 5, at 10.30 a.m.

A. A. FRASER,
Clerk of the Committee.

and value of product refined. (6) The relation of such cost to the selling price in points in Saskatchewan and Alberta and the differentiate in prices as between zones covering incidentally the matter of freight rates, for instance on tank car shipments to Biggar price charged is the same whether cars from Regina or Calgary refineries. (7) Enquiry into group three rates made applicable to Saskatchewan and operation thereof at all points in Western Saskatchewan, although lower freight rate from source of supply namely Alberta. (8) The justification for these rates being allowed to set the Saskatchewan consumers should not have the benefit of price as from the refinery at Regina. (9) Cover fully the matter of fuel oils and distillate and the cost and selling price thereof as well as lubricants generally.

(Signed) A. C. STEWART,
Minister of Highways.

Telegram.

To Hon. A. C. STEWART,
Minister of Highways,
Regina, Sask.

MARCH 23, 1932

Reply your wire twenty-third stop McCloskey and committee auditors working on Imperial books will not be recalled till audit complete in two or three weeks see proceedings and evidence of twenty-second mailed you yesterday stop questions in your wire will be put at McCloskey next attendance if not already covered.

(Signed) A. A. FRASER,
Clerk of Banking Committee.

Letter.

MARCH 26, 1932.

To Hon. A. C. STEWART,
Minister of Highways,
Regina, Sask.

DEAR SIR,—I beg to confirm receipt of your lettergram of the 23rd inst., respecting the enquiry into gasoline prices presently being made by the Banking and Commerce committee. I replied by wire of the 23rd as follows:—

> Reply your wire twenty third. McCloskey and committee auditors working on Imperial books will not be recalled till audit complete in two or three weeks see proceedings and evidence of twenty second mailed you yesterday. Questions in your wire will be put at McCloskey next attendance if not already covered.

You will note the trend of the enquiry from the printed proceedings and evidence sent you. Early in the proceedings it became apparent that the determination of details of costs of the Imperial Oil Co. would entail time and expense not at the disposition of the committee. Furthermore it would not be politic to single out any one company and an exhaustive audit of all the large companies is more than the committee is prepared to undertake. Consequently the procedure set out in the subcommittee report of the 22nd, was agreed upon.

The Sarnia and Halifax refineries were selected as more or less typical of all the Imperial Company refineries and as being most easily approached by way of audit. Distribution practice and costs of the Imperial are given in Mr. McNeil's evidence and I anticipate the other companies will likewise be examined. At the moment I do not know, what if any investigation will be made, pending the report of the auditors, but will keep you informed. I am forwarding additional copies of No. 5 printed Proceedings and Evidence.

Signed,

Clerk of Banking and Commerce Committee.

Mr. CAMPBELL: It seems to me, Mr. Chairman, about the simplest way out of this is to have the committee discuss the matter with some representative of the Imperial Oil Company to see if Mr. McCloskey will be prepared to go to Regina and testify before the committee there. It seems to be a local matter, and it is felt, and I think there is some justification for it, that there is a distinct discrimination against the residents of Saskatchewan. I have known oil refined in Regina to be shipped past us into Manitoba and sold there for two cents less than it is sold in Saskatchewan. That is what they are trying to get at.

The CHAIRMAN: The time to get that was at the last meeting of the committee when the cost of distribution on the part of the Imperial Oil was discussed and the officials of the Imperial Oil were here and ready to give evidence on these matters.

Mr. DONNELLY: I understood the Imperial Oil to tell us when they were here, that they were going to Regina to give evidence on the investigation there, and the cost of distribution in the province of Saskatchewan would be taken up there at that investigation. That is a part of their field of operation. I thought that is what they were doing, investigating the cost of distribution in Saskatchewan. I do not think we should take up their work.

Mr. McGIBBON: They have no power to call them.

Mr. MACMILLAN: Mr. Ross went to Regina and gave evidence.

The CHAIRMAN: The officers of the company have been giving evidence in Regina. You will see in the evidence they said they were going to Regina a few days after one of the meetings here.

Mr. MACMILLAN: Of course, Mr. Ross perhaps is not familiar with the distribution costs and the refinery costs. He stated that here on the first day.

Mr. DONNELLY: Mr. Chairman, they have a refinery at Regina. They can call the officials of the refinery at Regina to give evidence.

Mr. CAMPBELL: No, they cannot. All they can call are the officials of the refinery at Regina. They cannot call the higher officials of the Imperial Oil Company to tell about distribution in Canada. The province of Saskatchewan has no jurisdiction outside of its own boundaries. That is the point. The local officers may not have that information.

The CHAIRMAN: Have they no power in Saskatchewan to subpoena these men?

Mr. CAMPBELL: Not outside the province.

The CHAIRMAN: I remember distinctly Mr. Ross saying they were going to Regina to give evidence.

Mr. DONNELLY: Mr. Ross said they were going, and that they were sending the officials out there.

Mr. CAMPBELL: Mr. Ross went out himself in a plane.

Mr. MACMILLAN: The men in charge of the western refinery can give evidence.

Mr. McGIBBON: Let us get this point clear. Did I understand Mr. Fraser to say that the committee in Saskatchewan can subpoena the officials of the Imperial Oil from here?

The CLERK: I am of the opinion they can.

Mr. CAMPBELL: I do not believe they have any jurisdiction outside the province.

Mr. McGIBBON: The lawyers here ought to be able to tell us.

Mr. GEOFFRION: If the company is there, the officials of that company can be forced to give the information. The company will be told to find the information for the committee.

Mr. McGIBBON: That ought to be satisfactory.

Mr. BOTHWELL: I think possibly the misunderstanding has arisen through Mr. McCloskey giving evidence here. Possibly when the Imperial Oil were requested to give evidence in Regina, they replied that Mr. McCloskey was in Ottawa. Well, he is not here now; he is available to go to Saskatchewan if they want him.

The CHAIRMAN: I do know Mr. Ross stated in his evidence that they were appearing in Regina to give evidence before the committee there.

Now, gentlemen, I think we shall proceed. I understand the McColl-Frontenac are ready to give us information we asked from them.

Mr. GEOFFRION: I appear for the McColl-Frontenac. We are here with all the heads of the different departments. If you tell us what you want to know, we will give it to you from the man who knows, but before that, I should like to put Mr. Irwin in the box to correct certain inaccuracies or mistakes in respect to capitalization of the company, and then I shall put in Mr. Brooks, because he is to give you the figures you asked last time, but before putting these gentlemen in the box to be questioned by you, I should like to make this application on the resolution that was passed on the 22nd of March, or rather a report of the sub-committee which was approved on the 22nd of March, where our company, the Imperial Oil Company and the British American Oil Company were called upon to provide the statements in the form you prescribed, of our cost and selling factors. Of course, we appreciate that must be given; but we do not like to do it on account of our competitors getting it. We fully appreciate we cannot ask to be excused, but we would ask to make this application which I hope you will think is a reasonable one. We should like, since we have disclosed these elements to our competitors that as a compensation our competitors be also asked to do the same thing. In other words, we know we must publish certain information that our competitors would like to have; we know we cannot refuse to do so, because it is part of your inquiry, but we suggest, gentlemen, that it is only fair that other companies should not get that without giving us the same thing in return.

Mr. DONNELLY: What page is that?

Mr. GEOFFRION: It wil be found just before page 174. We are being compelled to disclose something that is not generally disclosed to competitors. This is what we are being asked: "That synonymous with this investigation by the auditors into the aforementioned cost and selling factors of the Imperial Oil, Limited, they secure from British American Oil Co., Limited, and from McColl-Frontenac Oil Company, Limited, statements in such form as will render practicable a comparison of the relative costs and selling prices of the three corporations, thus offering means of disclosing any major variations without entailing the additional expense of investigating the smaller oil companies operating in Canada." All we ask is that we be given equal treatment with those other companies, because there you have limited the order to the British American, the Imperial Oil, and ourselves. All we want is that they be ordered to prepare the same statement that we are called upon to prepare.

Mr. BOTHWELL: In speaking of your competitors, Mr. Geoffrion, what companies do you include?

Mr. Geoffrion: The Canadian Oil, the North Star, and the Regal Oil Company.

Mr. Bothwell: Canadian Oil, the North Star Oil Company and—

Mr. Geoffrion: And the Regal.

Mr. Irwin: We should have companies like the Shell, the Sun and the Cities Service—have them all.

Mr. Geoffrion: What I suggest is not that they be summoned to testify, but that they be asked to give the information that we are called upon to give. If you send a request to them, that is to say, ask all those companies to file a statement like us, that is what I want. It will just be practically a circular letter that you will need to send out. As I read that resolution, you are going to make an investigation of the Imperial Oil Company, and then you are going to ask some of those companies, including ourselves, to file a statement of a form that will allow you to make a comparison of our business with that of the Imperial Oil. All we ask is that the same statement be asked of the others. That will be useful in making your comparison.

Mr. Bothwell: You have a list of companies there, will you give us that list? You have given the Canadian Oil and the North Star, the Shell Oil and the Regal.

Mr. Irwin: Shell, Sun, and Cities Service and Supertest.

Mr. Geoffrion: The Shell Company, the Sun Company and the Cities Service Company.

Mr. Stanley: What are the names of those companies please? Is it the suggestion that an official of each company must be here?

Mr. Geoffrion: Our suggestion is that they be called upon at the same time that we are called upon, to file certain statements in the form described by your sub-committee. The resolution of the sub-committee stated: "That synonymous with this investigation by the auditors into the aforementioned cost and selling factors of the Imperial Oil, Limited, they secoure from British American Oil Co., Limited, and from McColl Frontenac Oil Co., Limited, statements in such form as will render practicable a comparison of the relative costs and selling prices of the three corporations, thus offering means of disclosing any major variations without entailing the additional expense of investigating the smaller oil companies operating in Canada." All I want is a similar statement from the others.

Mr. Stanley: What page is that?

Mr. Geoffrion: Page three, roman numerals, of the Minutes of Proceedings of Tuesday, March 22, 1932.

Mr. Donnelly: The first page of No. 5.

The Chairman: We are editing the books of the Imperial Oil, and we have asked them to file statements, that is all. If you change that, then you will have to go in and audit the books of all the companies.

Mr. Geoffrion: I am asking that where we are asked to file a statement, our competitors be also called upon to file a statement.

Mr. MacMillan: I will make a motion, Mr. Chairman, that parallel statements be filed by all the distributing and oil refining companies in Canada.

Mr. Campbell: I second that.

Mr. Geoffrion: As I read this resolution, it is limiting it to two or three companies.

The Chairman: No.

Mr. Geoffrion: That is all I want to guard against. That is what I am afraid of.

Mr. DONNELLY: You mean to say, as well as the Imperial Oil Company, the McColl Frontenac and the British American, you want all those other companies, the Shell, The Canadian, the North Star, the Cities Service, and the Sun to file statements the same as you are called upon to file; that this committee write to those people and ask them for that statement?

Mr. GEOFFRION: Yes.

The CHAIRMAN: We can do that after we get a report from our auditor, and after we have found out just what information we want. We can do that afterwards.

Mr. GEOFFRION: No; I simply want to call your attention to it.

Mr. BOTHWELL: I think that is a reasonable request, Mr. Chairman, and it will give a considerable amount of information to the committee. We ought to keep that in mind, so that we will get those figures.

Mr. GEOFFRION: Mr. Irwin is the first witness, because of some corrections.

Mr. CAMPBELL: Mr. Chairman, there is a motion before the committee.

The CHAIRMAN: I did not hear a seconder for the motion. Do you want to change the report made by the sub-committee and adopted by this committee at the last meeting?

Mr. MACMILLAN: The motion was that all distributing companies and refining companies in Canada be asked to file parallel statements.

The CHAIRMAN: Distributing companies and refining companies?

Mr. DONNELLY: Taking the companies we have mentioned, write to them and ask them to file statements.

Mr. MACMILLAN: Yes.

The CHAIRMAN: What is the pleasure of the committee?

Carried.

The CHAIRMAN: Mr. Irwin.

JOHN IRWIN, called and sworn.

Mr. Chairman and members of the committee, before I start, I have been making a few corrections, and before giving those, I would like to take this occasion to thank you and the members of the committee for the kindness extended to me the last time I appeared here. I was suffering greatly with throat trouble, and I assure you I deeply appreciate your consideration.

Now, on page 66 there was a question asked by Dr. Donnelly,—no, by Mr. Bothwell, rather, regarding the number of shares—the question was, "How many shares went out that way?" It was referring to the common stock which our brokers were selling at that time, four shares of common they were giving with every ten shares of preferred, and I am reported as stating, "Just one moment; I can give you that. There were 75,000 shares sold; seven and a half millions, one quarter of that would be 90,000 shares." I want to correct that. That should be 30,000 shares. For example, if you take 75,000, divide it by ten, multiply it by 4, you get 30,000 shares. There was also a question asked me regarding the amount of water that was in the McColl-Frontenac Company. There is none. I think I endeavoured to cover that point fully since that time. You have sent your auditor down, and he will present you with a statement.

By Mr. Bothwell:

Q. Just in that connection, we were told when you were here, either by yourself or Mr. Brooks, as to the financial set-up of the McColl-Frontenac, and the way that money came in. Have you a statement showing the valuations placed on the assets of the McColl Company and the Frontenac Company in their last annual statement before the amalgamation?—A. No. What we have here is a consolidated statement, Mr. Bothwell.

Q. Well, we would like to get at the valuations of those two separate companies before the amalgamation took place. At the time of the amalgamation you incorporated a company with $7,500,000 of preferred stock, 750,000 of common stock, and that stock as I understand it, was allotted to shareholders in each of the former companies.—A. No.

Q. And the stock was sold at a price of $65 a share. Now, what we want to get at is, what valuation was placed on the assets of the two companies before they came into amalgamation? If there is any water that is where we will get at it.—A. The McColl-Frontenac Company, as revealed in the statement, is a holding company. Our fiscal agents did, as you state, purchase 75,000 shares of preferred stock at par; they also purchased 500,000 shares of common.

Q. At par? What price?—A. $100 a share for the Preferred, 500,000 shares of an authorized issue of common stock, 750,000 shares were purchased at a price which averaged us $17.75 a share. (See pp. 66 and 67 ante.) Now, that money took over all of the assets of the Frontenac and all of the assets of McColl; so therefore there is no water in the McColl statement, in these McColl-Frontenac Oil Company statements.

Q. What were these two companies that were amalgamated?—A. Frontenac Oil Refining Limited, and McColl Brothers.

Q. McColl Brothers was an incorporated company?—A. Yes.

Q. This amalgamation took place in what year, 1927?—A. 1927.

Q. How were the shareholders of the McColl Brothers paid under this agreement?—A. They were paid $9,750,000 cash by the fiscal agents of the McColl-Frontenac Oil Company in money.

Q. What was the valuation of their plant, their business, and so forth in the statement prior to the amalgamation?—A. That I cannot tell you; but I can tell you this, that we considered it worth $9,750,000 cash and paid for it in cash.

Q. What about the Frontenac Oil Refineries? What were they paid? —A. The Frontenac Oil Refineries were paid by exchange of their common stock share for share with the common stock of McColl-Frontenac.

Q. Do you know the valuation of their plant— —A. I have indicated—

Q. —prior to the amalgamation?—A. I have not got that statement here, but we can—

Q. You will have those records, will you not, Mr. Irwin?—A. Yes.

Q. Both the McColl Brothers and Frontenac Oil Refineries?—A. No,—one moment. I don't think that I can give you the record of McColl Brothers. We made a purchase of that concern after making a survey of it. We considered it was worth $9,750,000. You said McColl, did you not? You spoke of McColl. I do not see how we can get that.

Q. What you mean is the McColl-Frontenac Oil Company purchased McColl Brothers and called the amalgamation McColl-Frontenac?—A. Yes.

Q. Well, if you can file that statement with us, the Frontenac Oil Refineries, we will possibly have to get the McColl Brothers statement from some other source.—A. Well, we can arrange to have that done.

Mr. MacMillan: It was an out-and-out purchase.—A. It was an out-and-out purchase.

Q. No stock in the McColl-Frontenac at all?

By Mr. Pettit:

Q. Was there any condition attached to the stockholders of the company that they would take stock in the amalgamated company?—A. No.

Q. They were free to do what they liked?—A. Free to do what they liked. We bought the McColl organization for $9,750,000, and they were out of the picture.

By Mr. Campbell:

Q. Was the stock of the new company any greater than what you paid for the other company, $9,750,000, which was the valuation of the other concern, the McColl concern? Is the common stock of the new concern any greater after the amalgamation than those two companies?—A. I do not understand your question.

Q. Well, you bought each one, and you took them over by another issue of stock, an exchange of stock. Now, was the stock of the McColl Frontenac, the amount outstanding, any greater?—A. You are referring to the common stock?

Q. Yes, common stock.—A. Well now, let me see.

By Mr. MacMillan:

Q. No par value.—A. No par value. At the time of the amalgamation, there were outstanding in the Frontenac, 120,485 of common stock, which was exchanged share for share for a similar amount of the common stock of the McColl Frontenac.

By Mr. Donnelly:

Q. One hundred and twenty thousand?—A. 120,485. There were one million bonds outstanding, which McColl Frontenac bought altogether from time to time at whatever price they could secure them at, and managed to get the last $10,000 outstanding of those bonds last year. There were 6,628 shares of the preferred stock of Frontenac Oil Refineries, which was exchanged share for share for the McColl Frontenac Preferred.

By Mr. Bothwell:

Q. You received $17.75 per share for the common stock sold through your fiscal agents?—A. It averaged that.

Q. It averaged that?—A. Yes.

Q. What price did that stock go to about the time or immediately after the time of the formation of this new company, the market price?—A. Well, the stock during the period of inflation, went as high as forty some odd dollars a share, but at that time—

Q. Do you know what your agents, your fiscal agents if I might call them such, received for the stock on which they paid you $17.75 a share?—A. No; they will have to answer that question.

Q. The figures that Mr. Brooks gave us the other day are correct?—A. Mr. Brooks is here to correct anything in his evidence that does not look right.

Q. Well, the particular question is this, perhaps you can answer it, Mr. Irwin; I asked the other day about the earnings per share and divided record for the year ending January 31, 1931. Your preferred stock earned $14.89 per share, and you paid, by the way, a dividend on it of $6 per share.—A. I do not understand that.

Q. I am quoting from what purports to be a copy of your annual statement of 1931, "consolidated income and surplus account, year ended January 31, 1931, earnings per share and dividend record; preferred earned, $14.89, paid $6."—A. I have the 1931 statement with me. No, I do not see that, but I can easily understand what you mean. The total earnings of the company, if applied to the preferred stock alone, would be $14 a share, but you have got your dividends on your common stock.

Q. I have that here as well.—A. If there was no common stock there would be $14 a share applicable to the preferred?

Q. No. I will just quote the complete record. "Earnings per share and dividend record, preferred earned $14.89, paid $6; common earned $1.43, paid 60 cents; times bond interest earned, before depreciation and after bank interest, 4·62, after depreciation and bank interest, 3·76."—A. Well, I gather from what you are reading there—that is not in my report—but I gather what you have got there, Mr. Bothwell,—the bonds are the first consideration, they are the preference, then comes the preferred stock, and then comes the common,—

Q. I do not mind showing you the statement, Mr. Irwin. It is a statement issued by your company, but it does not appear in your annual report.

By Mr. Pettit:

Q. Probably that would be the portion of gross earnings applied to the stock, the amount of preferred stock and the amount of common stock.—A. No, here is what this means. If there was no preferred stock, and there was no common stock, the earnings on the bonds would be four times greater.

Q. Why would it go in the statement in that way? On the second page you will see this— —A. I do not know where this statement came from.

Mr. MacMillan: Where did you get that statement?

The Witness: I have never seen it before.

Mr. McGibbon: It is likely a broker's statement.

By Mr. Bothwell:

Q. I am asking you if you can confirm or deny those figures?—A. I can work them out, Mr. Bothwell. If you take your bond interest and deduct it from the total earnings and take the amount of preferred stock I presume that it might work out to $14.

Q. I do not want any supposition in connection with that, Mr. Irwin. I would like to find out just exactly how those figures were arrived at.—A. I will be glad to have that worked out for you, gladly.

Q. We shall have that filed, shall we?—A. Yes.

Mr. MacMillan: Tell me where that statement comes from?

Mr. Bothwell: I am asking about the statement showing the earnings of the company.

Mr. MacMillan: Where did that statement come from; did you make it up?

Mr. Bothwell: No.

The Witness: It is not from the McColl Frontenac report, here is the report.

By Mr. Bothwell:

Q. As I understand it, this is a report to the shareholders of the McColl-Frontenac company at your annual meeting, a portion of which is published in your annual report.

The Chairman: It looks to me like a broker's statement.

Mr. Geoffrion: You take your total earnings and you say you secure your bonds—

Witness: How many times bond interest is earned.

Mr. Geoffrion: By your profit.

Witness: By our profit. Therefore you can check and apply the amount paid for preferred dividends, and what was paid for common dividends, apply the total earnings to your bonds, and see how many times your bond interest is earned, but that is not done on your preferred. First deduct bond interest, take the balance and you see how many times your preferred dividend is earned.

By Mr. Bothwell:

Q. I just wanted to get this——A. I think that is what it means, Mr. Bothwell; I could sit down in a quarter of an hour and work it out for you. It is not a part of our annual report. I wrote this report myself.

By Mr. McGibbon:

Q. That is the only way you can determine the value of the common stock?—A. Yes.

By Mr. Bothwell:

Q. Can you give us the reserves that have been built up in the McColl Frontenac Oil Company since the formation of the company in 1927, year by year?—A. Yes. I have not got it right here, but I can get it for you.

Q. Can you give us a statement of the increase of assets of the McColl Frontenac Company since it creation in 1927, year by year?—A. Yes, we can do that.

Q. Can you give it now?—A. I think I know what you are driving at there, Mr. Bothwell. There is one part here where you point out we have about $10,000,000 increase in assets between 1929 and 1930; is not that right?

Q. Well possibly.—A. I am speaking from memory. If you look at our statement for the year 1929, at least 1929 and 1930, you will find that during that period we sold $9,765,000 worth of bonds, which means that the figure which you brought up last time, you were taking—

Q. A statement over those different years showing your assets and liabilities.—A. We will be very glad to work it out for you. I was also asked, I think, at the other meeting, how much of a Canadian company the McColl Frontenac was, and would I give a memorandum of the shareholders. I have here a list of the shareholders of the McColl Frontenac Oil Company, 6,302 holding 500,000 shares, distributed as follows: Canadian shareholders 6,011, owning 469,089 shares; Great Britain, 47 shareholders, owning 8,526 shares; United States, 213 shareholders, owning 21,167 shares; other countries, Switzerland, Germany, 31 shareholders, owning 1,218 shares. I think if I might offer a suggestion, Mr. Chairman—

By Mr. Arthurs:

Q. In other words, of your shareholders, practically 90 per cent are Canadians?—A. 93.8. I think the other companies who follow us should be asked for the same information, if I might offer a suggestion, sir.

By Mr. Bothwell:

Q. In other words, in furnishing these statements I would like you to show also the depreciation, that is the amount left after depreciation in each of those years.—A. We will be glad to do that.

Q. I presume you operate in every province in the Dominion?—A. Not as far as the sale of gasoline in concerned. We do not sell gasoline in Britsh Columbia, but in the other provinces we do.

Q. Do you operate your own service stations?—A. We own a great number of service stations, but about 99 per cent of them are operated by others. We lease them.

Q. Operated by others on lease?—A. Yes, on lease. We lease most of our stations.

By Mr. McGibbon:

Q. What per cent of gasoline do you import?—A. What per cent do we import? I would rather have Mr. Wales answer that later on, because, as a matter of fact, the gasoline that we sell, as you gentlemen understand is gasoline we manufacture here in Canada, but a certain amount of casing head gasoline which has got to be imported to speed up acceleration in cold weather—Mr. Wales will have those figures and will be glad to give them to you. I do not know of any other points here in this evidence that I gave last time I appeared before you, but those corrections, sir.

The CHAIRMAN: Are there any other questions to ask Mr. Irwin.

Mr. PETTIT: I would move that the other companies be asked to file parallel statements in connection with the number of shareholders and the nationality of shareholders along the same lines as the one just produced.

Mr. MACMILLAN: I will second that motion.

The CHAIRMAN: I shall put the motion, but I should like to point out the procedure of the committee. The procedure of this committee is in the hands of the small committee from day to day, and that small committee will see that those matters are brought out. If it is your pleasure, I will put the motion.

Carried.

Mr. GEOFFRION: I can offer Mr. Brooks now.

LESLIE ARTHUR BROOKS, recalled.

The CHAIRMAN: You have some questions to ask Mr. Brooks in regard to his former evidence? Mr. Brooks was asked for certain information the last time he gave evidence, and that information he is prepared to give now.

The WITNESS: The first question was asked by Mr. Hanson at page 53 of the evidence. He asked for a split of the amount of $997,320.69 which is shown on the statement that I filed the other day as exhibit "A", as between depreciation and other charges. Depreciation is $270,632.63, bad debts $244,437.92, and the balance making a total of $997,320.69 is made up of administration charges.

By Mr. Pettit:

Q. What would the administration charges cover?—A. That is made up of many things. It would be very difficult for me to split that further this morning, but the information is available to Messrs. George A. Touche and Company from our books, the committee's auditors.

By Mr. MacMillan:

Q. For instance, one item might be included.—A. I don't think I can answer that, because I only have totals; I have no details. Then, on page 54 Mr. Bothwell asked " Can you tell us at this stage what the average cost of your crude oil was last year?" That information has been taken from our books by Mr. Holland of George A. Touche and Company, and I presume will be filed with the committee in due course. Possibly Mr. Wales may have some information to give you on that this morning. It is really out of my province.

By Mr. Bothwell:

Q. One other item there, in connection with the cost per gallon of 2·32 cents, I presume, Mr. Wales will be able to give us details on that?—A. Where is that?

Q. At page 53, a question by Mr. Hanson: " Just what does that work out per gallon to the consumer?" and you say, " The cost to us per gallon on sales is 2·32 cents." Mr. Hanson's next question is: "That is very large." I presume that is a question for Mr. Wales?—A. Might I refer to that statement first of all before I answer? No, that figure of 2·32 cents is marketing expenses per imperial gallon sold, and has no connection with the figure that I have just quoted of $997,320.69. I have details up to a certain point of the $1,343,355.48 which is the equivalent of 2·32 cents per imperial gallon. We can give you that now, if you want it.

Q. Yes. I would like to know how you arrived at that price.—A. That price of 2·32 cents is arrived at by dividing the number of imperial gallons by $1,343,355.48.

By Mr. Donnelly:

Q. Do you take all the service stations and everything into consideration in this? It is not wholesale prices?—A. Those are the marketing division expenses, Doctor Donnelly.

By Mr. Pettit:

Q. Would it entail much trouble to classify those administration charges you mentioned a while ago under certain headings, without mentioning the items?—A. No, I can run down the list. There is advertising, automobile expenses, collection expenses, service station expenses, customers' equipment, pumps and tanks, insurance, interest exchange charges, light, heat and power, legal expenses, maintenance of bulk stations, postage, rentals, salesmen's automobile expenses, travelling expenses, stationery, marketing salaries and wages, commissions, telegrams and telephone.

By Mr. Spencer:

Q. May I ask, what is the policy of your company with regard to real estate? Is it the policy of your company to buy up all the corner lots you can get for oil stations?—A. I am sorry, that is outside of my province. I am the comptroller of the company; perhaps Mr. Irwin can answer that.

Mr. Irwin: I would be glad to answer. No, it is not the policy of the company to buy a lot of corner lots. Does that answer the question?

By Mr. Spencer:

Q. There seems to be a regular competition between the oil companies to do that?—A. You have got to have a means of distribution for your gasoline. You have to take the principal points in Canada, Winnipeg, Toronto and Montreal, you get more stations in places like that than in smaller towns. But a great number of oil companies in Canada—all of us, are reaching out for business, therefore we put our facilities in every town where we can so as to get as much of that business as we can.

By Mr. Stanley:

Q. You do not put them on the back streets?—A. We put them in the most prominent spots.

By Mr. Bothwell:

Q. How many stations have you in the city of Ottawa?—A. Four in the city of Ottawa.

By Mr. MacMillan:

Q. I think that this increased overhead cost ultimately goes back to the consumer, the matter of extravagant competition.—A. One of the reasons we had to spend $9,000,000 was to pay for facilities to get our oil and gasoline out to the public.

By Mr. Campbell:

Q. The public will come after it if you establish reasonable prices.—A. If we could train the public to come after it, believe me, we would not put up any stations.

By Mr. Donnelly:

Q. Mr. Brooks, you were asked to file the price of crude at Montreal for 1930 and 1931.—A. I was just coming to that, doctor. That information was taken by your auditors when they visited our offices.

Q. You have not got that with you?—A. No, I think Mr. Wales has that.

Q. He will submit it?—A. He will submit that statement.

Mr. WALES: A copy which I took from the office, I took only the original. We did not make a statement at that time. We knew it would be turned into the committee, and the committee would get it. All I have with me to-day is a statement of the cost going into the refinery of the crude. As Mr. McCloskey explained to you, there is a difference between the current purchases of one year and what we charge to the refinery, due to a carry-over of the inventory from the previous year. I would be very pleased to file price current crude going to the refinery. It will vary from the report which you will get from your auditors on current charges. Is that clear?

Mr. BOTHWELL: We can get that when Mr. Wales is called. Have you anything further?

WITNESS: Yes. On page 56, Mr. Bothwell asked, "Can you tell us what that system is?" referring to our method of establishing our costs. I said that I could not do that in a few words. That was examined by your auditors when they visited our offices. Further down on that page, Mr. Donnelly asked this question, "In this price which you give here, in regard to crude, what amount of crude is taken to make gasoline?" I am recorded here as having said "Seventy per cent." That is incorrect. I did not understand the question. I thought you were referring to the cost per imperial gallon of crude oil and other materials purchased, which is 7.09 cents. I would like to correct that.

Q. It is 7.09?—A. Read with this statement, Dr. Donnelly, 7.09 cents.

At page 57 Doctor Donnelly asked:

> Q. Can you tell us what proportion you distribute to the service stations, and what percentage you sell in tank car lots?

71.3 per cent of our sales last year were in tank wagon lots; 14.9 per cent in tank car; and 13 per cent in tanker or bulk shipments.

By Mr. Donnelly:

Q. Have you the price of your tank car lots?—A. No, I have not got that.

Q. You cannot tell us, for example, at what price you sold in tank car lots gasoline in the City of Montreal as of 1st September, 1931, compared with the 1st September, 1930?—A. No, possibly Mr. Pritchard can give you that information.

By the Chairman:

Q. Have you any further corrections?—A. Yes. At page 60 I was asked the question:

"Q. What is the size of your plant in Montreal?" And I replied:

"A. 5,000 barrels a day, capacity." Then Doctor Donnelly asked if that was of gasoline and I replied, Yes. That was a misstatement. It is not 5,000 barrels a day of gasoline, it is 5,000 barrels a day through-put of crude.

At page 63 I made the statement that we have a bulk station or distributing plant at Sydney. I was wrong. The nearest plant to that is Monastery.

Q. Where is Monastery?—A. Near the Cape Breton border.

Then Mr. Bothwell asked me to file copies of the employees' application forms. I have these here this morning and I will file them with the committee. There is an application form and there is also a record that we keep of our employees. I think that is all the information that I was asked for at the last session.

By Mr. MacMillan:

Q. Where does your gas come from that you sell in western Canada?—A. From the Imperial Oil. That is on record.

Q. From the Regina plant?—A. I don't know.

Mr. Wales: The gasoline we bought from the Imperial Oil was bought according to our specifications,—made by Imperial Oil according to our specification.

By Mr. Spencer:

Q. Are you in a position to give the cost of freight?—A. Not beyond the information that is contained in the statement which the committee already has.

Q. This question was asked the other day; do you know that it cost a thousand dollars to take a car of gas from the head of the lakes to central Saskatchewan?—A. I am afraid I cannot answer that.

Mr. Geoffrion: Mr. Smith can give you the cost of freight.

By the Chairman:

Q. Have you answered all the questions that have remained unanswered and made all corrections?—A. Yes.

Witness retired.

James A. Wales, called and sworn.

By the Chairman:

Q. What is your position with the McColl-Frontenac, Mr. Wales?—A. Vice-President and Director in charge of the operations of the company. The operations include the movement of crude, and pipe lines, Marine department, refining, traffic and engineering.

Q. Have you been with the company since its organization?—A. Since the organization of the Frontenac Company. I was managing director of the Frontenac Company at its organization and I have been with the company and the parent company, the McColl-Frontenac Company, ever since.

Mr. Chairman, would you care to have me make any statement at all or just answer the questions? I am afraid if I start in on oil business—I have lived with it all my life and I am so full of it—I may cover some of the ground which has been covered by some of the other witnesses.

Q. Your company was asked to come here to-day to give evidence as to the method and cost of distribution. Perhaps you might say something to the committee briefly on your method of distribution.—A. Well, Mr. Chairman, Mr. Pritchard is going to take that matter up a little later. He is vice-president in charge of sales.

Mr. Bothwell: Mr. Chairman, as I understand it, Mr. Wales is the refinery man, and we are starting from there, although the telegram called for someone to explain the distribution method; that will come afterwards. At the previous hearing of the McColl-Frontenac there were a number of questions in connection with the cost of crude and the cost of refining, and that sort of thing, that could not be answered by either Mr. Brooks or Mr. Irwin.

The Witness: Before I start on that, Mr. Bothwell, I have just come up from the southwest. That is why I have not been able to appear at any previous meetings, besides other trips which I make into the oil country in the United States each year. I spent a couple of weeks in the oil country, in Texas and Oklahoma, and naturally I read the evidence before coming here and I would like to go on record that I think in Mr. McCloskey's evidence you have a very complete statement of the operating end of this business, that is, the movement of crude and the refining of crude.

I would like to add, however, that on my last visit, that is a month ago, to Houston, I had the opportunity of discussing the oil situation with a number of the executives of the larger companies and they have stated to me that the biggest problem they have in the United States to-day in the oil industry is the gasoline tax evasion racket. Now, it has only been in the last year—

Mr. BOTHWELL: I think we have spent about enough time on that as far as I am concerned.

The WITNESS: I thought I would put myself on record in that respect.

Mr. BOTHWELL: What we are endeavouring to get at, and which the oil companies have not been able to give us so far is the cost of producing gasoline in Canada. It does not make any difference what racket they have in the United States. If we can find out from the refineries in Canada what it costs to produce and distribute gasoline, that is our job.

Mr. MACMILLAN: I think the witness should be permitted to make his statement.

The WITNESS: I disagree with you, Mr. Bothwell, in this respect. You do not need me here to give you the costs of gasoline. Your own auditors are getting this information and they will tell you all about that, but I do disagree with you that the case of the United States is of no interest to this committee.

Mr. BOTHWELL: I did not say that, but here is where we are at: We know, from the evidence given by Mr. McCloskey, that there is possibly a gasoline racket in certain parts of the United States, but our job in this committee is to find out what it costs to produce and distribute gasoline in Canada.

The WITNESS: Very well, Mr. Bothwell.

Mr. MACMILLAN: It is also our job to explain to the people out in my country, in western Canada, what is causing this discrepancy as to price.

By Mr. Donnelly:

Q. Can you tell us what it costs for the crude oil laid down in the refinery in Montreal?—A. I can tell you that, Doctor Donnelly, but are you going to permit me to make a short statement first? The average cost of crude—

Q. Month by month for 1930 and 1931?—A. I have not got it month by month.

Q. I want it month by month for 1930-31.—A. I cannot give it to you month by month. Your auditors will be able to give you that. I have just the average cost for the years 1930 and 1931.

Q. All right.—A. Our average cost of crude into the Toronto and Montreal refineries was $2.16 per barrel, and into gallons 6·188 cents per gallon.

By Mr. MacMillan:

Q. Imperial gallons?—A. Yes, imperial gallon.

By Mr. Donnelly:

Q. You mean for 1930?—A. Yes, 1930. Now, the average for 1931 is $1.379 per barrel, equal to 3·941 cents per gallon. I would like to place on record the statement I made before being called as a witness, that those figures will vary from the figures your auditors will give you because they will give you the current purchase during the year, whereas those figures cover the carry-over of refineries from the preceding year, and that is what we charge into the refinery.

Q. Can you tell us in connection with that what you sold the gasoline for per tank car lot, we will say, in September, 1930, in Montreal? There is the price of crude for this year. I want to compare the price of gasoline in tank car lots?—A. Mr. Pritchard will give you prices. I have nothing to do with the prices. Mr. Pritchard will testify.

Q. We have heard from the Imperial Oil, telling us that in the year 1930 they charged 15 cents per tank car, in Halifax. That was in 1930 when the price of crude oil was high. In 1931 when the price of crude oil was low they charged 16·90. I want an explanation of why that raise when the price of crude oil is lower?—A. Well, as far as market prices are concerned, I think you had better get that in examination of Mr. Pritchard.

Q. The same thing is true of Montreal. In Montreal they charge 12·6 for gasoline in tank car lots as of 1st September, 1930, and on 1st September, 1931, the charged 14.5, an increase of two cents almost, and yet we are told that crude oil is only half the price practically.—A. I am not the man to ask. Those are Imperial Oil prices. I think they should answer that.

The CHAIRMAN: Excuse me. I think we had better confine ourselves to questioning the witness rather than trying to elucidate statements of the Imperial Oil.

Mr. IRVINE: It might be well for us to understand just what particular branch the witness is going to cover.

The WITNESS: Anything and everything up to the point of stating prices of gasoline and distributing costs, and the costs which Mr. Brooks has already covered.

By Mr. Howard:

Q. In other words, you are going to give us the cost of the crude and the cost of refining and putting it on the tank car?—A. That is all, briefly, and any question in regard to the method in which we operate.

By Mr. MacMillan:

Q. Could Mr. Wales give the committee some idea of what caused the difference in the price of crude oil in these two years?—A. Yes, I started to do that in a statement preliminary, because those are problems that we all have to study.

Q. I would like to have that statement.—A. The most of the major companies have been attributing the collapse in the oil industry to overproduction. That is the expression that has been used and which you gentlemen must be familiar with. By that they mean the production of more crude oil from the ground than the consumption of gasoline and other petroleum products will use up. Now, that has been brought about by the bringing-in of various fields in the last two years. The first field was what you might call a major pool, in the Oklahoma City field, and that was followed a little over a year ago by the East Texas pool which is looked on as probably the largest oil pool that has ever been discovered. Now, the operation is as follows: The major companies, many of them, have their own pipe line facilities for purchasing this crude. The large companies not only use their own oil as produced in their own wells, but they purchase from independent companies and transfer through pipe lines to their refineries. Now, the market is set by those large companies on crude oil by what they call a posted price. By that they mean the price which they will pay the producer for his oil at the well. If the producer has more oil than the large companies can buy from him, then he has one or two alternatives; either to shut it in or to try and get the best of his competitor by making private sales on the side, and he approaches independent companies with a view to benefitting by that extra sale. Usually he cuts the price ten, fifteen or twenty cents a barrel to enable them to take the crude off his hands. Then those independent purchasers are able, with the cheaper crude at their disposal, to cut the price of gasoline. After they have taken a certain volume of gasoline away from the major companies at the cut price, the major companies come to the conclusion that they cannot keep on buying crude oil at the high posted price, so they cut the posted price and they start all over again.

That has been going on for the last two years and resulted last year in very low posted prices until the independent producers, who were suffering, and who were having to sell all the crude oil below cost, appealed to the government on the plea that they should not have to suffer the loss because some heavy producers wanted to dispose of more than their share of crude oil. It resulted in the governor of Oklahoma sending his troops into the Oklahoma City pool and closing down all the wells for a period of sixty days. In August the Governor of Texas followed suit by closing up all the wells in the East Texas pool for a matter of thirty days.

When these pools were opened up they were put on what they refer to as a proration basis, the basis being determined by the railway commission under whose jurisdiction the State governments left the matter.

On that proration basis they have been able to produce about the quantity of oil that the country can consume, and the prices have gone up again so that now 39 pravity crude oil in Oklahoma City has a posted price of 83 cents. However, the major companies found that the control of the crude oil production had not solved their problems, and it was when they found that out that they began to discover this gasoline racket. There is no need for me to go into the details of that, because Mr. McCloskey has filed pamphlets here that explain very clearly how the gasoline racket operates and how the evasion of the tax enables them to cut the price which puts the honest dealer to disadvantage. Then the refining companies must protect the honest dealer. Then the lower refinery prices are passed on and they start all over again.

Now, they feel that that has led to such a complete demoralization of the industry that they must cure that before the prices can be re-established on a fair basis.

I have with me a statement which is more recent than the one filed by Mr. Ross in regard to the losses which have been sustained by the major companies in the United States and when I just read you a few of these major companies you will recognize them as the leaders in the industry:

Atlantic Refining Company,
Barnsdall Corporation,
Continental Oil Company,
Phillips Petroleum,
Shell Union Oil Corporation,
Simms Petroleum Company,
Skelly Oil Company,
Tidewater Association,
Texas Corporation,
Gulf Oil Corporation.

They represent, according to their own statements, an invested capital of $1,675,939,895.38. The sum total of their net earnings in 1929 was $180,000,000 plus. I am glad to file this in the record. In 1929 the total of their earnings was $180,000,000. In 1930 their net earnings amounted to $42,000,000.

By the Chairman:

Q. In 1930?—A. 1930, $42,000,000 for all the companies, and in 1931 it had been changed into a net loss of $82,000,000. That is, in the two years, net earnings of $180,000,000 had been changed into a net loss of $82,000,000. Now, during that period it was not because they had suffered a loss in business. I cannot give you the actual gallonage of each of those companies but I can tell you there was more business in 1931 than there was in 1930, and more business in 1930 than there was in 1929.

By Mr. MacMillan:

Q. More gallons?—A. More gallons, yes. It was not like the Steel Corporation—they are operating at about 25 per cent capacity and trying to make profits. Now, in 1931, these people were doing more business than ever before, and they were losing $82,000,000 in doing so. Now, gentlemen, I think that that establishes the position of the United States in the industry and that the price at which gasoline is sold in the United States is definitely at a loss, and that since those prices are the prices at which gasoline is sold for export to Canada it cannot be considered to be a fair market value as laid down in our Customs Act, because a fair market value should include a reasonable profit; and it is on that basis that we feel that the prices in the United States to-day should not be compared to the prices in Canada. We have cut our margin of profit down as low as we can get it relative to crude.

By Mr. Howard:

Q. Mr. Wales, just while you are on that point, you are giving us now the profits of those companies in the United States for the years 1929-30, as against the loss of last year?—A. Yes.

Q. Would you mind putting beside those the profits of the oil companies in Canada, or their losses in that same period?—A. I cannot do that this morning because I have not got them, but I think that if you examine the record that will be given you by your auditors. They will give you a statement as to profits. My own opinion is that the Canadian companies' profits remained about the same except, I believe, the Imperial Oil are a little less, but I would like to point out in that connection as well that our business here was maintained—it is not as though we are in business just only trying to operate—

Q. You mean maintained as to quantity?—A. Yes, maintained as to quantity. Now, if we were operating on a basis of 35-50 and trying to make the public give us a profit on the reduced operation, it would not be fair. I will admit that; but if our business is sustained I believe that we are entitled to the nominal profit which we make.

Q. That was not quite the argument that I was getting at. On your own statement there you gave us the profits of the American companies in 1929 and 1930, against which there is a loss in 1931. Before that the American companies did not decrease their production. Now, if you turn the picture over to Canada our own companies in the same time made a profit in 1930 and they also made a profit in 1931?—A. That is correct. They also had as much business in Canada. And I might go a little further and say that the individual companies had more cost, I believe the figures will show, after the profits were cut down, and I know in regard to our own company we have had more capital expenditures to take care of our extra business.

Q. But the total sales were more in 1931 than in 1930?—A. I cannot give you 1931 in Canada, we haven't it. In 1930 they were slightly higher than in 1929.

By Mr. Donnelly:

Q. Will you tell the committee how you get your crude oil into Montreal?—A. Our supplies of crude oil for the Montreal refinery are purchased in Texas. We either purchase them in what is known as the Gult Coast Field in Texas, or we purchase them in the northern fields of Texas.

Q. In the open market?—A. In the open market, from the major companies or the independents, wherever we can get them cheapest.

By Mr. Howard:

Q. But at the posted price?—A. At the posted price. We have contracts that are more or less flexible, having regard to quantity, with the major companies.

By Mr. Bothwell:

Q. Isn't it a fact that you are able to buy at considerably less than the posted price?—A. No. In fact the first time in my experience in the oil business was last year that we have ever been able to buy a small quantity at less than the posted price. Previous to that we had usually paid more, and when I say the posted price we pay a charge of five cents, the same as Mr. McCloskey has told you of in connection with his company.

By Mr. Howard:

Q. Five cents a barrel?—A. Five cents a barrel. We always speak of barrels in crude. We have paid as high as twenty cents above the posted price in order to get crude. That would be in 1927, five years ago.

Q. On the other hand, if you had a chance to purchase a quantity of distress stock—because after all that is what it amounts to—you would buy it.—A. We could buy it. That is what I say, our contracts are a little bit flexible. However, we have bought crude at a premium in years gone by of as much as twenty cents above the posted price.

By Mr. Irvine:

Q. How is it you have not got the advantage of that loss you gave us from the producers, of $80,000,000 through cheap selling?—A. Those are not producers. Those are companies that are operating right through to the service station. Those companies, the names of which I have already read, and that I am filing, are the largest companies in the United States; that is, the largest marketing companies.

Q. I understood from your previous statement that there were certain producers who were producing more oil than they could get rid of and they were underselling the posted price to other companies, with the result that there was a tremendous slump.—A. That only goes on long enough for the major companies to meet the price. They don't let them go on very long, and as a rule you are not able to take a great deal of advantage. As a matter of fact, outside of the Mid-continent field we have never bought one barrel of oil below the posted price. This loss, I believe,—and the executives with whom I discussed the matter, also believe—that it is far more attributable to this racket than it is to the over-production, because the racket is what breaks their gasoline price, and in the ultimate analysis they must get a proper price for gasoline or they cannot make a profit.

Mr. STANLEY: The Canadian consumer, as I understand it, is not interesting himself to compel our Canadian companies to lose the money. They are interested, though, in knowing how much of the lower price of crude is passed on to the consumer, and it seems awfully difficult to get to that.

Br Mr. Donnelly:

Q. Go on with this crude, will you, if you don't mind, and tell the committee how you get it in here?—A. The crude for the Montreal refinery is shipped by pipe line to Houston. I can give you the pipe line rates or I can file them with Mr. Fraser for record. I will read off one or two of them anyway. For instance, North Texas to Houston, the marketing charge of five cents, a gathering charge of 12½ cents, a trunk line charge of 31 cents, and a terminal charge for putting it on board our boat of 2½ cents, make a total of 51 cents.

By Mr. Howard:

Q. Per barrel?—A. Per barrel. Now, we bought a great deal of crude from Pan-handle area last year, that is, up in northwestern Texas. The charges from there to the Gulf are as follows—I say the Gulf because most of the ports are equalized as regards rates—: There was a marketing charge of five cents, a gathering charge of 12½ cents, a trunk line charge of 37½ cents, a terminal charge of 2½ cents, making a total of 57½ cents per barrel.

By Mr. Donnelly:

Q. Why did you buy in the Panhandle instead of the other?—A. It provided us with the cheapest grade for that quality of crude. We have to balance the delivery cost at Montreal against the quality of the crude.

In addition to those charges which I have given you there is a surcharge equal to a value of one per cent of the crude oil that is delivered into the pipe line. I cannot give you that in dollars because obviously it varies with the class of the crude. That is allowed to the pipe line as a handling loss. Actually we pay it in dollars, as one per cent of the value. They deliver us the amount of crude which we buy as a common carrier, but we pay them for the loss.

We have tank steamers which are under time charter to us. They belong to us in everything but the fact that we do not own them, and those boats bring the crude from the loading port, usually Houston, Texas, to Montreal. At Montreal, of course, it is delivered direct into our refinery tanks. Some crude comes from Texas Gulf ports to Toronto, in which case we have boats on the lakes which take the crude from Montreal to Toronto. In regard to the regular supply to our Toronto refinery, we purchase that in Oklahoma.

Q. Give us the price then, that you charge for your tankers?—A. The price per barrel that we have charged on the tankers has ranged over a period of years from 75 cents per barrel, when we were chartering on the open market, down to the minimum last year of 35 cents per barrel.

By Mr. Bothwell:

Q. Those were averages that you were giving us for 1931 when you gave us 57½ cents per barrel from the Panhandle?—A. Those are pipe line tariffs, that is, as they exist to-day. So far as I know they have not been changed. They are pipe line tariffs laid down by the Interstate Commerce Commission.

Q. You said last year that you brought oil from the North Texas field to Houston and that it cost you 51 cents per barrel. Is that the average for 1931, or what is that?—A. That is the charge over the pipe line between north Texas and Houston.

Q. I am trying to find out if that is the average for 1931?—A. That would be the average as well as the actual charge for that particular pipe line, for the crude that passed through that pine line during 1930-31. If it came down from Panhandle then it would cost us 57½ cents.

Q. Then coming to your tank steamer charge, what was your average there in 1930-31?—A. In 1931 it was 35 cents the whole year; 75 cents has not been the price for, I think it has been five years.

By Mr. MacMillan:

Q. That is the average?—A. That is the average. 35 cents has been the price, which is a cent a gallon. I might explain that that seems unreasonably low—

By Mr. Bothwell:

Q. When you are giving us 6.51, or 57½, is that per Imperial gallon?—A. No, that is per barrel.

Q. How many Imperial gallons in one of those barrels?—A. 35.

By Mr. Donnelly:

Q. Will you give us the same thing for Toronto?—A. Yes, I will be very glad to.

By Mr. Howard:

Q. In 1931 your cost was practically 4 cents a gallon c.i.f. boat at the Gulf ports. You paid one cent freight to Montreal, which makes five cents for your crude delivered in Montreal during 1931,—is that right?—A. I would like to explain that this average price of crude oil coming into the Montreal refinery is made up of various grades of crude oil of different prices from a number of different fields all with a different pipe line charge to the Gulf port.

Q. Well, then, what is your cost on your boat at the Gulf ports in 1931?—A. It was the same for all grades of crude, 35 cents a barrel, equal to one cent a gallon.

Q. Then what was your price of crude generally at the Gulf ports?—A. Obviously it would be those prices in 1931, 3·90 per gallon at Gulf ports.

Q. That makes it 5 cents, practically speaking, in round figures?—A. No. It would make it less at the Gulf ports. You deduct the freight. If the delivered price at Gulf ports is 3·90—

Q. That is, the delivered price in Montreal?—A. No, to Montreal you add the one cent per gallon freight.

By Mr. Bothwell:

Q. In 1931, Mr. Wales, you gave us your handling charges and your freight to Montreal. Now, taking that north Texas field, what was your average cost of the crude?—A. Well, Mr. Bothwell, the auditors have prepared that. That is quite an elaborate statement and the auditors have prepared that. It is bought in small quantities at different prices through the year, and the auditors have prepared that statement and are submitting it to the committee.

By Mr. MacMillan:

Q. What was the average to Toronto?—A. The regular crude delivery into Toronto comes from Oklahoma and it was bought at the posted price. The charges to Chicago are as follows: A marketing charge of 5 cents; a gathering charge of 20 cents; a trunk line charge of 46 cents; and a terminal charge of 2½ cents, making a total of 73½ cents per barrel from the well to the loading point at Chicago. Just while I am on this, there is a surcharge of one per cent depending what the value of the crude is. Last fall we were particularly anxious to reduce the long pipe line haul because we have to pay exchange not only on the price of the oil but on the price of the pipe line, and terminal, and in this case, you see we paid as much exchange as we paid on the actual oil itself, 73½ cents, almost as much as the posted price. Now, the tanker rate from Chicago to Toronto is 40 cents a barrel, and, as I said before, that is actually more than the long trip which takes 15 days from Houston to Montreal, but it is because the boats on the ocean run are bigger. The tanker rate from Montreal to Toronto is

30 cents a barrel. Again that is a little out of proportion to the Chicago rate because we are limited to a 14-foot draught boat in the St. Lawrence waterway canal system, whereas we can run up to,—well actually we could only run last year up to 17 and 18 feet on account of the water levels last year.

By Mr. Donnelly:

Q. Shipping it from your supply tanks at the gulf up to Toronto by boat would cost you 65 cents a barrel, 35 cents to Montreal and 30 cents from Montreal to Toronto?—A. That is correct. The actual cost to the company might be a little greater because we have to pump it out at Montreal and pump it back again into the lake tanker, but we don't charge that. Your figure is substantially correct. There is a slight additional charge for the dockage and transhipment. I have not got that figure but I can file it if you would like me to do so. This freight is a combination of all the charges. For instance, we have some chartered rates that are in sterling. We have others that are in United States currency, so that our figures are involved in three different currencies, United States, Canadian and Sterling.

By Mr. MacMillan:

Q. You pay for your crude in American funds?—A. We pay for our crude in American funds, and we pay for our transportation to the Gulf in American funds.

By Mr. Bothwell:

Q. You did ship a little crude from Montreal to Toronto, or you do?—A. Yes, we did last year.

Q. It will cost you higher than from the Oklahoma field?—A. That varies with the condition of the industry, Mr. Bothwell. When we built these boats for the Chicago service it was out of the question to tranship crude oil from Montreal to Toronto. The cost would have been greater coming from Montreal. Just now, depending on where you get the crude, it is almost an even break. You sometimes are able to bring it in creaper the other way. From the figures you gave us, it would cost 1.16 to Toronto and 1.13½ the other way?—A. Depending on the market.

By Mr. Donnelly:

Q. How about the price of the crude coming from Chicago as compared with the price of crude down in Texas in the Gulf?—A. I can give you the actual posted price in east Texas; for instance, the posted price is the same as in Oklahoma. Usually we have to pay a higher cost from the gulf to Toronto, because we would have to go up into the northwestern part, that is, into the Panhandle, to get the grade of crude that they produce in Oklahoma, and we could not afford to buy all of the crude which was produced close to the coast because it loaded us up so with fuel oil that we could not dispose of it, and the primary object of our business it to produce gasoline.

By Mr. Bothwell:

Q. Do you import any gasoline at all?—A. As such, that is, gasoline for our consumption to the public, no. Our gasoline is all made and has been made the last year in Canada. We purchase in the west, as has gone on record, from the Imperial. We have to have in Canada a gasoline to meet our climatic conditions which is more volatile than the gasoline used in the United States.

By Mr. Donnelly:

Q. How much did you import in 1930 and how much in 1931?—A. I cannot tell you that. I can tell you this, that it varies from 5 to 10 per cent of the total, depending on the climatic conditions.

By Mr. Bothwell:

Q. And what proportion of your gasoline do you produce yourselves, and what proportion do you purchase from the Imperial Oil, for instance?—A. Naturally, I would rather not answer that question, but I will answer it.

Q. I just want to get some idea?

Mr. Irwin: What is wrong with that question?

The Chairman: Has it anything to do with the cost of production?

Mr. Arthurs: You do not purchase any more from your competitors than you are compelled to?—A. We only buy from the Imperial Oil where the freight rates are so against us that we cannot afford to ship from our own refineries.

By Mr. Donnelly:

Q. You have not the prices in tank car lots?—A. Mr. Pritchard will give you those, Dr. Donnelly.

By Mr. Bothwell:

Q. Are you the producing man?—A. I am responsible for everything up to the time it is sold.

Q. Can you give us, then, your cost of producing gasoline in your refinery? Is there any difference between the two refineries, Toronto and Montreal?—A. There is very little difference. Suppose I just read that, that is the best way. I have the costs here. I notice that they have something here for depreciation. Then there is an item for administration expenses, that is, our head office expenses. My salary, for instance, is not in this.

By Mr. MacMillan:

Q. That is plant depreciation?—A. Simply plant depreciation, on the equipment which we are using to manufacture the gasoline.

By Mr. Bothwell:

Q. What amount of depreciation is added year by year?—A. Well, every piece of equipment has a different percentage, and we have to work that out with the income department of the Federal government.

Q. The figures you have include that depreciation?—A. No, I can give them to you for the depreciation.

Q. I think it would be well.—A. Would you rather have it in cents per barrel or cents per imperial gallon?

Mr. Arthurs: Per gallon.

The Witness: In 1930 the cost per gallon in the Toronto refinery was 1.522 cents.

By the Chairman:

Q. The cost of refining?—A. Yes, 1.522 cents, and the Montreal refinery in the same year, 1930, it was 1.671 cents. In 1931 the Toronto refinery cost was 1.408 cents, and the Montreal refinery cost was 1.121 cents. Now, that will answer your question as to how they compare. In Toronto in 1930, the refinery cost was less, and in 1931 the Montreal refinery cost was less.

By Mr. Bothwell:

Q. How do you arrive at your cost of producing at these refineries?—A. Well, I am going to tell you. The question of refinery costs is quite a complicated one. We will attempt it. As you know, we were in the marketing business before we got in the refining business. When we began to refine that was one of the problems that confronted us. We sent accountants and cost men down to several companies in the United States, who were friendly towards us, and found out what they were doing. We read all the books we could get on the subject. We finally adopted a system which I notice in Mr. McCloskey's evidence is referred to—

Mr. BOTHWELL: Sales realization system.

The WITNESS: No, we went one better. We adopted the purpose method. Now, we were able to adopt the purpose method because our accounting had been carried out in such detail that a large proportion of the cost could be directly charged against a certain product and against a certain operation, and the costs which could not be so charged were then distributed over the products on the sales realization method. Now you will notice from this report—I think it is a very good explanation of the different costing methods—we have adopted the purpose method, as I say.

By Mr. Donnelly:

Q. A more direct combination than the others?—A. I believe it is. I notice that who ever wrote this article that was submitted—I think you submitted it, Mr. Bothwell,—I believe they came to the conclusion that it was the best method, but it could not be used in all refineries.

By Mr. Bothwell:

Q. That was taken from the investigation in the United States?—A. Well, in the evidence.

Q. Described in the report?—A. Well, in the evidence. You read it into the evidence. Now, I believe that we have the best costing method that can be obtained.

Q. How many products do you produce?—A. I have not added them up, so I am not prepared to say whether or not we produce 75 or 80.

By Mr. Donnelly:

Q. Can you tell the committee what proportion of gasoline you get out of your crude oil?—A. Yes, I will tell you exactly. What year?

Q. Both 1930 and 1931?—A. In which refinery?

Q. Montreal and Toronto?—A. In 1930 our total production of gasoline was 56·71 per cent at Toronto Refinery.

Q. It was 56·71. That is to say, you got that percentage out of crude oil?—A. Yes, that percentage of the crude oil was gasoline.

Q. Turned into gasoline in your refineries?—A. No, I said Toronto; that is the Toronto refinery.

By Mr. Howard:

Q. Give us the Montreal refinery?—A. In the year 1930, the same year, the Montreal percentage was 53·56. In 1930 the Toronto refinery—

By Mr. Bothwell:

Q. That is 1931?—A. 1931, yes. The Toronto refinery gave us 54·53.

By Mr. Howard:

Q. And the Montreal— —A. Montreal 50·12. Now, I would like to make this statement in explanation of those figures—

Q. You were getting a poorer crude?—A. It is no reflection on either the operation of other companies who only make 45 per cent, or on our own respective refineries. It depends on the market they have to satisfy and the type of crude which we buy. Substantially the yields were the same on the same kind of equipment at both our refineries, but in Montreal we have a better fuel oil market, and we can buy a heavier crude.

By Mr. MacMillan:

Q. Can you give us in percentages, anything else you get out of it?—A. Yes, I would be quite willing to do that; in fact, I have them. Which one would you like me to start? In Toronto in 1930, it was 56·71 gasoline.

By Mr. Bothwell:

Q. That will be all right?—A. We got a lot of fuel oil, 3·32 per cent light fuel oil, 28·02 heavy fuel oils, 8·57 fixed gas—I will explain that later; loss 3·38 per cent. Would you like me to explain that? Now, do you want the other four, or will this be typical; it is pretty much the same as the others. Now, the fixed gas, I notice, in one of the other companies' report has been included with the heavy fuel oils. The reason for that is, when we crack to make the ultimate yield of gasoline, a certain lot of it is noncondensable, and because it cannot be turned into gasoline, we substitute that in our own refineries for fuel; instead of burning fuel oil, we burn that gas, which leaves a little extra fuel oil for sale on the market, so properly that can be classed with our heavy fuel oil production.

Q. What proportion of costs does your gasoline bear?—A. In what way?

Q. In your refining operations?—A. Oh, I cannot answer that at the moment. The auditors have taken that information and they will be able to submit it. I have only got the gasoline cost figure, because I thought that was what I would be asked for. They have taken the cost of all the products, have they not Mr. Brooks?

Mr. BROOKS: Yes.

By Mr. Bothwell:

Q. Now, I think you said you have not included in figuring your costs in Toronto and Montreal, the cost of administration?—A. That is right.

Q. Can you give us any idea how much that administration costs?—A. No; it is included in the general administration costs which Mr. Brooks gave you. He put it all in the marketing end of the business. We do not make any attempt, for instance, to separate, say my salary and that of my operating staff from the head office expenses. We do distribute it over the four divisions of our accounting system. Administration of refinery is combined with the marketing department, marine, and traffic in each division, and we distribute the head office expenses over divisions. Is that clear?

By Mr. MacMillan:

Q. How do you arrive at the divisions?—A. Mr. Brooks will tell you that.

By Mr. Bothwell:

Q. The only object of my question was to find out if the gasoline end was bearing an out of proportion amount of the administration costs, but it would be small in any case?—A. Very small.

By Mr. Howard:

Q. Then, to make me clear, approximately your delivery price of crude during 1931 was four cents a gallon in Montreal.—A. Wait until I look it up. No, I gave you the average for the two refineries.

Q. All right.—A. We used that average. But subtract—

Q. We will take it at practically four cents.—A. Four cents.

Q. Then your refining costs in Montreal was how much per gallon?—A. In 1931, Montreal, 1·451 cents.

Q. Approximately 1½ cents?—A. Yes.

Mr. GEOFFRION: A gallon of gasoline?

The WITNESS: No, that was the refining costs of the crude oil, 1·451 cents.

By Mr. Donnelly:

Q. Can you tell the committee the percentage in your profits that you make from gasoline?—A. No, I cannot tell that; Mr. Brooks will be able to give that; also the auditors have that. They have been at our office and have left. I have not got that figure here.

Q. You cannot tell us the percentages that have been received from gasoline as profit compared with other byproducts?—A. I have not the figures, no. We can get them for you and I shall be pleased to submit them.

Q. The auditors have taken them?—A. They have had them, Dr. Donnelly. There is just one statement more I would like to make, Mr. Chairman, if the questions are finished. I have this under my charge, and that is the traffic end of the business, and as a preface to what Mr. Pritchard will probably tell you on distribution. We are constantly up against very high rail hauls for gasoline as against the short American hauls across our border, so that sometimes we are unable to meet competition in places on account of the long Canadian haul as compared with the short haul across the border. Sometimes those rates are not at all fair, and I tell you in particular, the rate into Ottawa—the Bradford refinery from Pennsylvania, the rate into here of the Pennsylvania producer is such that he can ship his gas into the city of Ottawa at a cost of 2·90 cents a gallon, while our charge from our Toronto refinery to Ottawa is 3·00 cents. In other words, we pay more from Toronto to Ottawa than the American refiner in Bradford pays from Bradford, Pennsylvania, to Ottawa, and the gasoline passes our refinery en route to Ottawa.

By Mr. MacMillan:

Q. What is the difference in mileage?—A. What is the difference in mileage, Mr. Smith—A. About double.

By Mr. Donnelly:

Q. What is the reason?—A. Dr. Donnelly, we have been fighting that for years with the railways, and especially in these times when we felt that if the American producer, manufacturer, could be made to pay something to our railways he should be made to do so. And the railways' answer has always been that they have no jurisdiction over international rates. Now, we have gotten them along to the point where they have admitted that it is not right, and we cannot get any farther. And we believe that the,—particularly our own railroads here—railroads should charge the foreign shipper in proportion to what he charges the local manufacturer, particularly as we pay taxes towards the railways.

By the Chairman:

Q. Who has jurisdiction over the international rates? The Interstate Commerce Commission has not?—A. Well, we have never been able to find out who has jurisdiction. They have always carried along with those international rates on an agreement basis. I think it would be better, if you want to go into that, to let Mr. Smith, our traffic manager, point out numerous instances of that kind; but I just want to mention that one glaring instance, because this gasoline passes our own refinery en route, and comes into our market. There was a period when we could not ship from our refinery to Ottawa without making a loss on our gasoline, and that was one of the periods when we had to go to another company and import.

By Mr. Spencer:

Q. What would be the cost of moving gasoline from the head of the lakes to central Saskatchewan?—A. Where, to central Saskatchewan?

Q. Yes.

Mr. Smith: We have not got the rate here, but we can get it for you.

The Witness: You know the rate, of course, from Winnipeg to Regina.

By Mr. Howard:

Q. We want the rate from the head of the lakes to a point as far west as, say, Calgary.—A. We will get that rate for you.

By Mr. Spencer:

Q. We have been told it cost a thousand dollars to take a car of gasoline from the head of the lakes to central Saskatchewan. I want to find out if that is too much or too little.

Mr. Smith: It all depends on the size of the car, and where it went.

Mr. Spencer: A large car.

The Witness: If you would care to point it out to Mr. Smith, he will get you the rate and file it in the record.

Mr. Spencer: From Fort William to Regina.

Mr. Howard: Take different points. Take from the head of the lakes to some point in Saskatchewan. Gasoline from a western refinery to points in the west does not go to Fort William.

Mr. MacMillan: Get right through to Saskatoon.

Mr. Smith: All right.

By Mr. Arthurs:

Q. Do you ship your gasoline from your refineries into a western district and compete with other refineries there?—A. No, it does not pay. We do not. It would not pay us to ship gasoline out there, and companies who do it are not making money on it.

Q. They import it?—A. We are not running an import business.

Q. It must pay them?—A. That does not follow.

By the Chairman:

Q. Is gasoline imported into Ottawa?—A. It was being imported into Ottawa, and set the pace for our prices to an extent where we were not able to ship from our refineries to Ottawa. You gentlemen probably remember a price war that developed in Ottawa about two years ago, when Ottawa was selling gasoline lower than other points.

Q. Who were the people who were importing here?—A. I would rather not rely on my memory for that.

By Mr. Howard:

Q. How do you get gasoline from your Montreal refinery to Sherbrooke?—A. We ship it in tank car by rail.

Q. Can you give us what the cost per gallon is?—A. We can give you all those—

By Mr. Bothwell:

Q. Have you finished with the statement you were making?—A. Yes. I would like to say, Mr. Chairman, that if any of these gentlemen would care to come to our plant or refinery in Montreal, I would be very pleased to show them everything in the way of manufacturing, or anything else. All the information we have is at their disposal in our own offices.

By Mr. Pettit:

Q. The gasoline brought from Bradford to Ottawa is via rail?—A. Via rail. It comes through what they call the Buffalo gateway, through Toronto and up to Ottawa. We have tried to drop our prices to an extent where we could stop that movement and get the business, and I think we have been largely successful.

Mr. DONNELLY: Is it not possible for us to meet this afternoon?

The CHAIRMAN: We have not permission to meet when the House is in session; we will have to meet to-morrow morning.

Mr. IRWIN: Mr. Chairman, our monthly meeting of the board of directors was called for to-day. I have postponed it till to-morrow. You have got most of the directors here.

The CHAIRMAN: Does the committee care to meet at two o'clock to-day and finish up this evidence?

Mr. DONNELLY: If we could possibly meet this afternoon and get through with this company, it would be just as well.

Mr. BOTHWELL: Would it be possible to get authority from the House at three o'clock.

Mr. PETTIT: Yes, if you tried you could meet at four o'clock, Mr. Chairman.

Mr. CHAIRMAN: We could, possibly.

Mr. BOTHWELL: If we could finish up with this company to-day it would be much better.

The CHAIRMAN: We could possibly get permission from the House early this afternoon and sit at four o'clock.

Mr. HOWARD: That would be fine, this afternoon at four o'clock.

The CHAIRMAN: With that arrangement in view, the committee will adjourn now to meet at four o'clock.

AFTERNOON SESSION

The committee resumed at four o'clock.

The CHAIRMAN: Now gentlemen, we shall continue our investigation. Mr. Pritchard will be the witness this afternoon.

JOHN M. PRITCHARD, called and sworn.

By the Chairman:

Q. What is your position with the company?—A. I am general sales manager of the company.

Q. General sales manager?—A. Yes, and vice president.

Q. How long have you held that position?—A. Just the last three or four months. It is a new title in the company. I am the vice president.

Q. What was your occupation before that?—A. I have been vice president of the company since the start.

Q. Since the McColl Frontenac started?—A. Yes.

Q. Before that what was your position?—A. I was vice president and Director of Frontenac Oil Refineries Ltd., before that Managing Director with the Tidioute Refining Company, with the British American Oil Company, and the Winnipeg Oil Company before that, in the west.

Q. You have spent a long time in the oil business. You are prepared to give evidence on distribution?—A. Yes.

Mr. GEOFFRION: And costs.

By the Chairman:

Q. Do you wish to make a statement in regard to the general plan of distribution?—A. There are two or three statements I would like to make on things that have already been said in evidence. First one by Mr. Brooks at page 65 of the evidence. He was asked if gasoline could be sold by distributing companies at less than the regular market price. In this respect I might say that there are—there have been in the past several small companies who have done this kind of business. They have sold at two or three cents below the market price. They are mostly men in this business who have a few dollars. They buy one storage plant and a small truck, and they deliver to the different parties, mostly our customers, at night, or to our competitors, and they try to get cash for it and without any cost whatsoever, they are able to carry on for some considerable time; but we notice that they operated usually in thickly populated territories, where the gallonage is large and the haul very short, and expenses are very light. But as a result the class of business they do, they usually owe a considerable amount of money to the parties they buy from; they owe the government, and after one or two years they seem to fade away, out of the picture and leave the market to the larger companies.

By Mr. Geoffrion:

Q. You mean to say they have been escaping paying the taxes?—A. In a good many cases, they have in the past—we find that they owe the provincial government a considerable amount of money for road taxes, and also their creditors.

By the Chairman:

Q. By road tax, you mean the tax on gasoline?—A. Yes, the tax on gasoline.

By Mr. Geoffrion:

Q. It is a sort of minor racket?—A. Well, it has been in the past, but we have been able to more or less stop that practice in the last year. We have instituted a third grade of gasoline where by we have met that competition. It is usual that the gasoline they purchase is of an inferior grade, and the parties who buy it usually want price and nothing else. They are not after quality; and in that way this competition has gradually been eliminated, especially since we have met the prices in Toronto and Montreal and in other large centres.

Mr. Howard in the evidence at page 192 gave 32½ cents as the price of gasoline per gallon at Sherbrooke, and 16½ cents per gallon of gasoline at a point 34 miles out of Sherbrooke across the Border. In looking up this record, gentlemen, the Standard Oil of New York, the National Petroleum News of March 23rd, gave the price at the service station at 18.3 cents with tax. We take this tax off, which is four cents, and that brings it down to fourteen cents. Now, to bring it back to an imperial gallon, you have to add 2.9, which brings the price up to 17.2 and with exchange at 11 per cent at the present time, makes it 1.8, or 19 cents. Now, we are selling in Sherbrooke at the present time gasoline at 19 cents plus the road tax at 6 cents, which makes the price 25 cents.

By the Chairman:

Q. Mr. Howard's price was the standard price at the pump.—A. Thirty-two and a half cents. That is our premium grade gasoline, Mr. Matthews. We have a very high octane gasoline, which we sell to our premium customers, and who want the very best quality.

By Mr. Donnelly:

Q. What is the octane of that?—A. Around 78, sir. This gasoline we are selling at 25 cents has an octane around 61, or 62, which is in competition with the other lower grades. But if we were to add freight from these points across the Border, and we figure the freight would be 2.30, our price in comparison would be 21.30; so I think we can answer Mr. Howard's question on the low-price gasoline.

By the Chairman:

Q. Your price is what?—A. On the high grade?

Q. On the low grade.—A. Twenty-five cents with tax; without tax nineteen cents.

Q. Nineteen cents plus tax.

By Mr. Donnelly:

Q. What is the octane of domestic aviation gas?—A. Octane? It is around 82 is it not? Mr. Wales could answer that question better than I could.

Mr. WALES: I do not know what Dr. Donnelly means by domestic aviation.

Mr. DONNELLY: What they call aviation gas.

Mr. WALES: It is about 80 we are getting now. In fact, a lot of that we are selling at about 80, but there is very little difference now between our so-called higher grade premium gasoline, and aviation gasoline.

By Mr. Donnelly:

Q. What would be your endpoint?—A. Around 390.

Mr. WALES: Aviation gasoline is usually held down to 375. Now, I think it is only fair, since you have raised that question, to tell you endpoint is not a test of quality. That is a mistaken idea.

The WITNESS: There is another question I would like to bring to your attention, and that was in regard to the tank car prices at Fort William. The Oil and Gas Journal, March 15, 1932, says the price was $3\frac{7}{8}$, $4\frac{1}{8}$, with an average of four cents at the group.

By Mr. Donnelly:

Q. Where was this?—A. At the group, sir, group three. That is the point from—

Mr. WALES: The price is the Chicago price, and it was checked by Platts, but they do not give you the freight on the Chicago quotations in these journals. The Chicago prices with freight added from group three, which is Oklahoma, and that is where I think Dr. Donnelly went astray, in quoting the prices from the journal as printed. They do not tell you in the journal that you should add the freight.

By Mr. Donnelly:

Q. What is the price there?—A. Four cents plus 2.38, 6.38.

Q. The price I quoted was from the National Petroleum News, and I think the date was after June, if I remember correctly, or July, 3.2.

Mr. WALES: I took the price on the day the evidence was given.

Mr. DONNELLY: I took the price from the National Petroleum News of 1931, in either June or July, and I think the quoted price in that month was 3.2, 3.125, 3.29.

The WITNESS: I can only give it to you at the present time. Do you want to get that now?

By Mr. Donnelly:

Q. Go ahead.—A. We add 2.38 freight, making it 6.38, converted to Imperial gallons makes the Imperial gallon 7.66 at Chicago, plus exchange of 11 per cent, .84 cents, making 8.50, and the freight to Fort William, from Chicago, 6.34, plus exchange of .44 cents, making it 15.28, without duty or dumping.

Q. Excuse me. How do you account for the high freight rate of six cents a gallon from Chicago to Fort William. By water—A. We have not got any facilities to bring it by water.

Q. Are there no facilities to bring it?—A. Not at the present time. There is no one bringing it that way, sir. There is only one way we can bring it, and that is by rail.

Q. It looks like a high price to me when you could ship it from Chicago to Fort William by water, and you now pay six cents a gallon?—A. Yes, that is correct, but we have not got the facilities, and when you have not got the facilities you have to do it that way, have you not?

Mr. WALES: It was not justified. I am in charge of the marine department, and for the business that moves there, one tank steamer could handle the whole business there, and unless there is sufficient business moving to justify tank steamers, it would have to be moved by rail.

By Mr. Bothwell:

Q. The Imperial Oil ship gasoline from Sarnia to Fort William, and why could it not be done from Chicago to Fort William?

Mr. WALES: They are not common carriers. They run boats to transport their own products.

By Mr. Bothwell:

Q. Now, Mr. Pritchard, we had evidence this morning as to the cost of getting crude oil into your refineries in Montreal and Toronto; the cost of crude and the cost of transportation, the percentage of gasoline that you get out of the crude. Do you start out at your end of the business with the gasoline as it comes from the refinery?—A. You mean the delivery of it? I accept delivery of the gasoline from the refinery.

Q. From the refinery?—A. Yes.

Q. Do you have anything to do with the price to the trade?—A. No sir, none whatever. The question you want me to answer is the fixing of prices, is it sir?

Q. You take delivery of the gas, we will say, into your department at the refinery?—A. No, I take delivery at my different bulk stations all over the country. The refinery delivers that gasoline for me. That is part of the refining.

Q. Take Montreal, you take delivery in your bulk stations?—A. In my tanks at Montreal where we have—we have distribution stations all over the country, and the refineries ship there in tank cars.

Q. Your particular department would pay a certain price, or at least there is a certain price charged for that gasoline as it comes to you?—A. Yes.

Q. Can you give us the average price in 1930 and 1931? You take it in tank cars, as I understand it?—A. Yes. That proposition is a little different, Mr. Bothwell. We in our department are allotted so much per gallon below the tank wagon market price at the point of delivery for handling a grade of gasoline, that particular grade. We do not take it from the refinery at their cost, or anything like that, because we are trying to run our business to find out exactly what it cost us to do business. We have a uniform cost regardless of the price of gasoline, then we know how one division compares to another, and if it is losing money, the reason why it is losing money.

Q. Where do you start out in the accounting in your department? You must start out with the cost of your product some place?—A. Well, we start out in the—the marketing division receives a certain percentage underneath the tank wagon market price at the point of delivery. That is the way we start in.

Q. Take Montreal. You have your distribution facilities in Montreal?—A. Yes.

Q. Take the laid-down to-day, for instance. Do you get a delivery into your tanks, which is into your department?—A. Yes.

Q. From the refinery? What price do you pay for that?—A. We pay according to the practice, 5½ cents below the tank wagon price at that point.

By Mr. Donnelly:

Q. The tank wagon price?—A. Yes.

By Mr. Bothwell:

Q. Five and a half cents below the tank wagon price?—A. Yes, we take that all over the country. It is a common practice, whether it is a fair one or not; but it is, as a matter of fact, a bookkeeping entry.

Q. So far as your department is concerned, you have never heard how the prices are fixed? You take delivery at 5½ cents per gallon below the tank wagon prices?—A. Absolutely.

Q. As it is fixed?—A. Yes. We have got to absorb all charges.

Q. Five and a half cents below. I am not very clear on this. Take it at Winnipeg.—A. Yes.

Q. To-day, for instance, say a delivery is made to your own station, that is to your own distributing point there,—A. Yes.

Q. —it goes into you at what cost?—A. Well, that is a different proposition, as we already explained, we are purchasing from one of our competitors, as we stated this morning, and that cost, of course, is a confidential price.

Q. That is the point I am after. I have forgotten for the moment about Winnipeg and that you are buying there from one of your competitors. We will take Ottawa.—A. Yes.

Q. What price do you allow for the gasoline that you get here?—A. It would be $5\frac{1}{2}$ cents below the tank wagon price here, which is $18\frac{1}{2}$ cents. That would be $13\frac{1}{2}$ cents.

By Mr. Donnelly:

Q. Thirteen and a half cents in Ottawa?—A. Yes.

Q. What is the present price in tank car lots in Montreal?—A. The tank car price is $13\frac{1}{2}$ cents.

Q. In Montreal?—A. The tank car price is $13\frac{1}{2}$ cents.

Q. How much?—A. It is $13\frac{1}{2}$ cents.

Q. How much is it in Ottawa?—A. The tank car price is 15 cents.

By Mr. Bothwell:

Q. How is the difference made up?—A. Well, are you gentlemen talking about the tank car price or the tank wagon price, which?

Q. Tank car.—A. You have been talking about tank wagon.

By Mr. Donnelly:

Q. I understood you to say that the tank wagon prices were $5\frac{1}{2}$ cents below the tank car prices?—A. Yes.

Q. How do you account for the difference? You say $13\frac{1}{2}$ cents in Montreal? —A. Yes.

Q. Now, I understood you to say it was $18\frac{1}{2}$ cents here for the tank wagon price, and now you say it is $13\frac{1}{2}$ cents in tank car lots.—A. Yes.

Q. You say the tank car lot is $5\frac{1}{2}$ cents below the tank wagon price?—A. That is a special price. The refinery has to stand the difference.

Mr. Wales: That is an arbitrary figure; it is an internal inter-departmental arrangement with the refinery department.

By Mr. Bothwell:

Q. I have not got it clear yet. In Ottawa to-day what would be your tank car price?—A. The tank car price in Ottawa is 15 cents.

Q. Fifteen cents?—A. Yes.

Q. What is the tank car price in Montreal?—A. The tank car price in Montreal is $13\frac{1}{2}$ cents?

Q. A difference of $1\frac{1}{2}$ cents?—A. Yes.

Q. Do you know what the freight is from Montreal to here?—A. It is 2·2 cents.

Q. What is that?—A. Two and one-fifth cents.

Q. Per what?—A. Per gallon.

Q. Per gallon?—A. Yes.

Q. How do you make the difference— —A. There is a cent and a half.

Q. —in your prices. You say the freight rate is 2·2 cents?—A. Yes. We do not fix the tank car prices, nor do we fix the tank wagon prices. The Imperial Oil Company have fixed those prices for a good many years, and we follow the Imperial Oil prices. We do not fix prices ourselves.

By Mr. Donnelly:

Q. How do you get the prices from the Imperial Oil?—A. How do we get those prices? We do not. We find out, and all competitors are so anxious to sell gas, and they want to get a cheaper price, it is very easy to find out, in fact, the tank wagon price. We have a good many pumps in districts where the Imperial sell to the same customers as we do. I guess you gentlemen have noticed along the streets here, there will be an Imperial Oil pump, a British American pump, and our pump, all lined up at the same place.

By the Chairman:

Q. At the same service station?—A. Yes. And it is very easy, if we charge more or less than the other fellow, they will let us know. They know that we follow the Imperial Oil, and have done so for a good many years. Since I have been in the distribution, the Imperial Oil have always set the price of gasoline in this country. We cannot charge more. We could not do any business if we did, and if we charge less than the Imperial Oil, the Imperial Oil would meet our price and we would not make any money.

Q. It is a matter of you following their prices. There is no marketing Committee?—A. No.

Q. Or arrangement in regard to prices?—A. No arrangement. We follow them, because they always set the prices. Ever since I have been in the business and in western Canada—I was in business there—they set the prices and we followed them.

Q. Or the price in Ottawa so far as your company is concerned bears in relation to the cost of laying your gasoline down here from Montreal.—A. No, sir.

Q. It is simply a matter of meeting competition?—A. Yes sir, absolutely.

By Mr. Donnelly:

Q. Give us your tank wagon price in these two places?—A. Tank wagon price, 18½ cents in Ottawa.

Q. In Montreal?—A. 17½ cents.

By the Chairman:

Q. Eighteen and a half cents and 17½ cents?—A. Yes.

By Mr. Donnelly:

Q. Will you file with the Committee the price of your gasoline in tank car lots and tank wagon lots and service station lots for each month of the years of 1930 and 1931. Take, for example, the first of the month or the average price for each of the months.—A. We would be glad to do that.

Q. In Montreal and Toronto where you have refineries.—A. Montreal and Toronto.

Q. Two places where you have your refineries?—A. Yes.

Q. The prices in tank cars, tank wagons and service stations.—A. Yes.

The CHAIRMAN: The other statement given us is on the first of the month.

Mr. DONNELLY: He can have the first of the month as well.

By Mr. Bothwell:

Q. Now, there is a spread of 5½ cents between the tank wagon and tank cars.—A. Well, that is an internal working arrangement in our company, sir.

Q. What spread is there between your tank wagon and retail prices at the service station?—A. Three and a half cents in most cases. In the Maritime provinces it is four.

Q. Why is it four there?—A. Because the amount of business that is done in the Maritimes is so much less, and the cost of doing business so much greater to the operator down there. Up to about three months ago, it was five cents a gallon, but they reduced it now to four.

By Mr. Geoffrion:

Q. You are speaking only of service stations?—A. Only of service stations, the difference between a tank wagon and the public.

By Mr. Bothwell:

Q. How many service stations have you in Canada?—A. We have over 200 service stations, but we do not run those service stations ourselves, they are mostly all rented to lessees on a rental basis.

Q. Those that are rented, I presume are rented on the basis of paying you a return on your money?—A. We try to get six per cent and our taxes on our investment.

Q. You try to get that? Do you succeed in getting that. Take your whole service stations, what has been your realization in returns from your service stations in 1930 and 1931?—A. I would say around 3½ per cent.

By Mr. Donnelly:

Q. Do you write off each year depreciation in the value of real estate in regard to your service stations?—A. Depreciation?

Q. You buy a corner lot for a service station?—A. Yes.

Q. And you find that on account of the present depression, the value of real estate in that case has gone down 25 per cent. Do you write that off as depreciation or not?—A. No, sir, we never do.

Mr. Irwin: We write off on the buildings, not on the land.

The Witness: Just what the government allows on the buildings, that is all. We always hope it will be back someday, and we will be better off.

By Mr. Bothwell:

Q. Then, following up a question I was asking. You say that in 1930 and 1931 your service stations have earned about 3½ per cent.—A. No, I will say that we have received from our lessees about 3 to 3½ per cent.

Q. On your investment?—A. On the investment, yes.

By Mr. Donnelly:

Q. What percentage of your service stations do you run yourselves?—A. Well, I would not say more than two per cent. Two to three per cent.

By Mr. Bothwell:

Q. What is the result of those; do they make a profit or a loss?—A. Well, they do not make much profit, sir. We try to make them break even, if we can. I think that when we rent them out to parties they work harder, and they spend longer hours and they make a bigger success, and are more anxious to make a success than if we hire a man to work certain hours, who just quits right on the dot. He does not care whether business is good or not.

Q. Possibly it would be just as well for us to get what your investment is in service stations in Canada. Can you give us that figure?—A. I guess Mr. Brooks can give you that. He is our comptroller. Have you got the figures there, Mr. Brooks?

Mr. Brooks: Yes.

By Mr. Donnelly:

Q. When you rent a service station to a man, do you compel him to buy from you people?—A. Absolutely, 100 per cent.

By Mr. Geoffrion:

Q. He does not always do that?—A. Yes, in our own stations. He does not last very long if he does not.

By Mr. Donnelly:

Q. Have you anything to do with the price at which he has got to sell it? —A. No, sir.

By Mr. Bothwell:

Q. There is a spread of 3½ cents between your tank wagon and your retail prices?—A. Yes.

Q. That is what you endeavour to maintain?—A. Yes, at least that is what a service station man has to get to make any money, to break even.

Q. Now, I am told that there are certain trade discounts allowed to those men running service stations; that they are able to buy from the company at a little less than tank wagon price; is that correct?—A. Well, there have been cases, yes, where a man has a large chain of stations and who could go and buy in tank cars, but who makes some arrangement with the refinery or with some large company to sell him at a little less than the tank wagon price.

Q. I am told there is a spread of as much as three cents from the tank wagon price to certain dealers. That is, three cents in addition to their 3½ cents spread. That is to say, one man is able to buy it three cents cheaper? —A. Well, that might prevail in one or two instances where a man would buy large quantities, and who could go into the tank car business himself, he might make an arrangement with a company, to purchase his total supply which might be $2,000,000 gallons. That same man could buy in tank cars, and secure probably as much as four cents, but he figures one cent is not worth it, and he does not wish to do it, and he would buy it that way, but these cases are very rare. I mean, there are only a few who are able to do that.

Q. Maybe to that extent?—A. Yes.

Q. But you do give them this discount?—A. In a very small number of cases.

Q. To some men?—A. Well, there has been—naturally there are always trade secrets. I would say over 95 per cent of the busines is done absolutely at tank wagon prices.

By the Chairman:

Q. The retail man in the service station is paying tank wagon prices and he is probably buying it in tank cars.

Mr. Bothwell: Well probably he is buying it in tank cars, but I presume the same thing would happen whether he got it from the tank wagon or the tank car. There are certain people— A. Who could go into the tank car business themselves, who have gasoline sales—

By Mr. Geoffrion:

Q. Does he buy tank car quantities?—A. Yes, by tank car quantities. They would buy as much as some of those jobbers would buy.

By Mr. Bothwell:

Q. You have a certain tank car price, and as I understand it in Ottawa it is 15 cents?—A. Yes.

Q. Tank car price?—A. Yes.

Q. Are there discounts given on the tank car prices to those men that are operating your service stations?—A. No, sir, we do not give tank car prices to anyone operating our service stations.

By Mr. Donnelly:

Q. Supposing he would buy a tank car lot in the city of Ottawa?—A. They do not buy from us at our service stations in tank car lots; our service stations will only hold 2,000 gallons; therefore he could not buy in tank car lots from us if he wanted to.

By Mr. Bothwell:

Q. You sell to a number of stations that are not operated by yourselves? A. Yes we do; a great many.

Q. Do you sell to those people in tank car lots?—A. We have sold some of them tank cars, if they can take tank car quantities, and get rid of it in tank car lots the same as any other jobber would do.

Mr. Donnelly: Mr. Chairman, Mr. Brooks has those figures now with regard to the amount of money invested in service stations.

Mr. Brooks: The investment in our service stations, land, buildings and equipment is $4,770,000 and the land is $1,859,000.

By Mr. Bothwell:

Q. What amout is written off for depreciation in 1930?

Mr. Brooks: I cannot tell you from the figures I have here.

Mr. Geoffrion: On the stations?—A. Yes, sir.

Mr. Bothwell: Yes, on the investment.

The Witness: The auditors, of course, will show that when they come here.

Mr. Bothwell: I hope the auditor is geting all this information we are asking for.

Mr. Geoffrion: If he wants any more, he can come again.

Mr. Irwin: He spent enough time down there, Mr. Bothwell.

By Mr. Donnelly:

Q. Now Mr. Pritichard, what I am particularly interested in is this, the price of crude. From the evidence we have had so far, in the year 1930 you paid a certain price for your crude as compared with 1931?—A. Yes, sir.

Q. Practically speaking, in 1931 you paid twice as much for your crude oil as you did in 1930?—A. Twice as much for our crude oil in 1930?

Q. You paid twice as much in 1930 as in 1931?—A. Yes, sir.

Q. Then again, we find from the evidence that was given this morning, it cost you less to refine your gasoline in 1931 than it did in 1930?—A. Yes.

Q. On account of your improved methods and the improved conveniences that you have now. If that be true, can you tell the committee how it is that on the first of September, as we have heard it, you charged in tank car lots 12·6 cents per gallon?—A. It is 13·5.

Q. In Montreal on the first of September, 1930, you charged 12·6 for gasoline and in the year 1931, the first of September, one year later, when it cost you less for refining, and also cost you less for your crude oil, you are charging more for gasoline. In other words, you were charging 14·5, nearly two cents more. You had cheaper crude, and cheaper refining in 1931, and yet you are charging nearly two cents more on the wholesale price or in tank car lots at your refinery for gasoline.—A. In 1930 we stopped selling tank car business in the city of Montreal. We could not compete with the prices which were being offered by the people in Pennsylvania.

Q. What time in 1930—A. Around that time, the price was around 12·60 you see, sir.

Q. Well, that was in September. It was around 12·60 in September.—A. Around that time sir, we stopped all tank car business. We could not offer to do it and meet this competition. We decided we would not do it, but our competitors, the Imperial Oil, who had always had this business, were willing to take a loss and supply the customers in competition with foreign oil companies, and I think if you will look up the business done by the Imperial Oil in their tank cars on their statement here, you will find that they did business in Canada to the amount of 149,000,000 gallons, is it not? On page 120 you will find that they made $66,000 on $22,000,000 worth of business, which is 0·04 cents per gallon. They probably had bought thousands of barrels of crude oil, made arrangements with their pipe lines, their boats, and all those different things, and they had to carry on and get rid of their supplies. We are fortunate enough not to be in that position.

Q. Are you selling any tank car lots now?—A. We are sir.

Q. How do you account for the fact that you are charging even more now?—A. We are simply meeting the price of our competitors; we are not setting the price of tank car business.

Q. You are charging now, for example, 15·30. I see the present price—no, that is in March of last year; in 1930 you charged 12·80.—A. We did not take any of that business because we could not afford to take it.

By Mr. Geoffrion:

Q. You were not selling?—A. We were not selling because we could not afford to take it but our competitors like the Imperial Oil who had always sold these people, could not afford to lose their business.

By Mr. Donnelly:

Q. Mr. Pritchard, you see the way it looks to us is this. On account of present conditions and present legislation, it has forced these men who are running these service stations to buy gasoline from you people. They cannot buy it from any outside company because they have the dumping duty and everything against them. They have to buy from you people in tank car lots or tank wagon lots, and instead of lowering the price, you raise it to the service station. In other words, we find this; in 1930 you charged him 12·60, and you made him sell it for 24 at the service station. On the first of September, 1931, he paid 14·50 at the service station, and he has got to sell it for 23. You are charging two cents more, and the service station has got to take the two cents over.—A. The service station man is making the same margin of profit, 3½ cents. as he always did. His margin of profit has not changed, 3½ cents.

Q. Your tank wagon is different?—A. Tank wagon price? That may be so, but as far as the service station man is concerned, his profit of 3½ cents is the same. The tank car buyer's price might be a little higher, and his margin of profit may not be as great.

Q. Your tank wagon price, I see on the first of September, 1930 you charged 20·50; that is about 7½—7 cents, and this year your tank wagon has come down to about 3 cents.—A. Down to 17½.

Q. No, it is four cents here in Montreal on the first of September—14·50 and 18·50, four cents.—A. Our price is 17½ in Montreal.

Q. I am taking the first of September, 1931. I just happened to hit on the first of September. Then it is 14·50 by Imperial Oil, and 18·50 in tank wagon lots, 22 in service stations. In 1930 it was 12·60, 20·50 and 24. In other words, you make a bigger spread in 1930 between tank wagon and tank car than you do in 1931, so the man who is importing, the independent distributor who is importing in tank car lots from the United States, finds himself unable to do it because of the present dumping duty and the present tariff, and it has obliged him to buy from you and pay a big price, that is all.—A. We don't think it is a big price.

Q. Compared with what is was last year, compared with what it was in 1930 and 1931. They are two cents, as it says here in 1930 and 1931, and yet the gross price of crude and the price of refining is less, and you have charged more in tank car lots to the independent distributor.—A. Well, as the Imperial Oil sets the prices, Dr. Donnelly, that would be a fair question to ask them.

Q. That is Imperial prices.—A. I think that would be a fair question to ask them, sir.

Q. That is the thing that is worrying this committee as much as anything else. The committee is interested in knowing how you justify that increase of price to the distributor, on account of the price of crude and on account of the cost of refining. That is the thing that is disturbing the public to-day.—A. Well of course, on the prices there, as I said before, we are not setting them. I think that would be a fair question to ask those parties who set the price.

By Mr. Bothwell:

Q. Can you give us the price you had to charge in 1930. You said you went out of the tank car business in 1930 some time, because you were not able to sell in tank car lots and make a profit. The price there in 1930 was 12.60. You say you are not selling at that because you were not able to sell and make a profit.—A. That is right, sir.

Q. If you could not afford to sell at that price, you must be able to show us at what price you could sell.—A. Well, we could show you, but I am not in a position right now to do it, because I have not the figure; I have not figured out the difference. It would take some time to figure up the price of our crude at that time, and other shipping facilities which we had.

Mr. Wales: When it gets down to the point where Mr. Pritchard is not making any money, I am the man who tells him what the cost is and if we cannot go any further, that we are losing money.

Q. Are you able to give us that information?

Mr. Wales: I can get that information, but not to-day. I can give the information, what our costs were, and why we had to stop selling gasoline on that basis. But Mr. Chairman, because it is only our opinion, I cannot answer for the Imperial Oil figures, but we have had to look at them and try to make up our minds why it is so. Now, fundamentally, we consider the duty of an oil company is to protect the public, not the jobber. All those discussions of Mr. Bothwell and Dr. Donnelly, are in regard to the protection to the jobber. Our undertaking was to protect the public, the man who buys gasoline, and puts it in his tank, and with these figures which Dr. Donnelly and Mr. Bothwell have quoted, we have protected the public, and the price fell from 3 to 3½ cents a gallon when the crude went down. The fact that the tank car prices changed does not matter. That is an intermediate price, which is based on the competition, which at that time was not protected by any dumping duty, and gas was being shipped in from a demoralized market.

By Mr. Bothwell:

Q. Are you not arguing from this standpoint that you gave an undertaking in 1930 not to increase prices? What we want to get at is the cost of that gasoline in your refinery; that is, the tank car prices.

Mr. Wales: May I answer that? The facts that you have taken are only half the story. The real function in regard to protecting the price, we believe, is to protect the price to the consumer, the public, and if you look at our list there you will see the price to the public went down from 3 to 3½ cents. Now at that time the price was 24, and to-day it is 21. At one time it was 24, and went down to 20½, that was 3½ cents lower. For ten months it was 24, whereas to-day it is 21, which is three cents down on the price to-day. If you look at the difference in the price of crude, you will see that 3 cents on the gallon just about balances that 78 cents a barrel for crude. In other words, we have protected the public on the declining of crude.

Now, the other situation, the tank car situation, is an entirely different one. The tank car price was set by the competition of distress gasoline in Pennsylvania at that time. There was no dumping duty order in effect. We could not meet that price. The Imperial Oil in my opinion, I cannot tell you why they did it, I can only give an expression of my opinion, and my opinion is that they had contracts for crude oil; they had contracts for pipe lines, and they had to meet the price no matter whether they lost money or not. The statement from them will prove to you they lost money, and a lot of it, because on 150,000,000 gallons they only made $66,000, which works out to only about 0.04 cents a gallon. We could not do that, so we did not attempt to meet that price, but when the dumping duty made it impossible for them to ship that distress gasoline into this country, then the tank car price became a price in which that loss was eliminated.

By Mr. Bothwell:

Q. In other words, you say by putting on the dumping duty you were able to charge more in this country for your gasoline?

Mr. WALES: That was the purpose of the dumping duty, to protect us from having to sell at a loss to meet gasoline from a demoralized market in the United States. I think I have proved this morning that the market in the United States was demoralized.

Mr. HOWARD: May I ask Mr. Wales a few questions?

The CHAIRMAN: Yes.

By Mr. Howard:

Q. Mr. Wales, you said this morning that the refined gas cost approximately 1½ cents per gallon to refine it?—A. Offhand.

Q. In round figures. Well now, do you consider that the refinery costs at your refinery in Montreal are higher than the refinery costs, for instance, in New York state?—A. Yes.

By Mr. Donnelly:

Q. Why?

By Mr. Howard:

Q. Why?

Mr. WALES: In the first place, the through-puts in the American refineries are very much higher than ours.

Q. The what?—A. The through-put. That is a term we use in the oil business. That means the amount of crude oil put through a refinery. Now for instance, a refinery that I visited at Port Arthur, Texas, was putting through 100,000 barrels a day of crude oil, as against 5,000 barrels at our plant. Now, the higher the through-put, the lower they get their cost of putting it through, because one stillman can run a still, or take charge of a still that is probably running 20,000 barrels a day, just as easily as he can when running 5,000. Now, in addition to the reduction of costs in the through-put, there are climatic conditions in this country which increase the cost. We have a much higher fuel bill than any of the United States refineries. The actual fuel we burn is a much greater quantity; and the cost of fuel is greater in quantity because we have to blend all these charges I gave you this morning. And you must remember that probably 30 to 40 per cent of the crude is fuel oil, which we burn, that we get out of the crude in order to get the gasoline content out of it.

By Mr. Donnelly:

Q. What percentage do you say would be the difference?

Mr. WALES: Well I cannot give you that. It would vary even in a modern refinery. I would not attempt to guess what the percentage would be.

By Mr. Howard:

Q. Let me ask you this question, Mr. Wales. Do you pay a higher cost for labour in Montreal than you do in New York?

Mr. WALES: I do not know the labour cost in New York so I cannot attempt that.

Q. You admit you pay less than you do in New York?

Mr. WALES: No, I would not think so. The only comparison I have seen is the comparison submitted here in evidence, in which the average labour costs in Canada were higher; but these are the only costs I have seen in regard to labour, so I cannot answer that question.

Mr. BOTHWELL: Mr. Ross changed it the next day.

Mr. WALES: I think he said instead of being higher, they were practically on the same level, or within two or three cents, on the average.

Mr. DONNELLY: He said in some other cities they were lower, but in Pennsylvania they were about the same.

Mr. WALES: I do not know what they would be in New York.

By Mr. Howard:

Q. If your refining costs were 1½ cents per gallon in your Montreal refinery, what proportion of the 1½ cents on the same basis would you consider labour costs?

Mr. WALES: I cannot answer that, but we could get the figure from our cost records, which your auditors have, and I would put it in the evidence here, or see it is in the report.

Q. You would consider it would be less than that?

Mr. WALES: I would not attempt to guess, because it is easy enough to get the statement and file it.

Q. Ordinarily, protection is put on to protect the labour cost. Therefore, if your total cost in Montreal is 1½ cents per gallon, and 2½ cents plus dumping duty, it makes some protection.

Mr. GEOFFRION: You are bringing the witness into an expression of opinion on policy.

Mr. DONNELLY: We want him to justify their policy.

Mr. GEOFFRION: The putting on of protection comes within the jurisdiction of the government and parliament.

Mr. HOWARD: Absolutely. I think he is trying to establish the proportion of costs of 1½ cents is the labour cost.

Mr. WALES I will get it for you, Mr. Howard. I have not it here to-day. There are a good many other factors that enter into it, such as carry-over, which is a lot of crude oil that is necessary to keep on hand in order to keep our refinery running in the winter, when the St. Lawrence is frozen over, and the lakes are frozen, and we must bring up sufficient crude oil before the close of navigation on the 1st of December to keep our refinery running in the winter time, and we have the additional carrying costs on the crude.

Mr. HOWARD: That is all included in the 1½ cents per gallon.

By Mr. Donnelly:

Q. You see, it looks this way to the committee. You say you need protection of $2\frac{1}{2}$ cents per gallon, and you say it only costs you $1\frac{1}{2}$ cents to refine your gasoline.

Mr. WALES: One and a half cents is a small proportion of the total costs.

Mr. DONNELLY: You are getting more than the total cost of producing the gasoline in the way of protection.

Mr. WALES: No, doctor, you are mistaken. The $1\frac{1}{2}$ cents is only the operating cost of running the crude through the refinery, which is always a small percentage of the total cost. The bringing of the raw material from the field to the plant is a large percentage of the total cost.

Mr. DONNELLY: They have to pay for the raw material in the United States the same as you do.

Mr. WALES: Yes, but they buy it in many cases close to the source.

Mr. DONNELLY: According to the evidence, the American refinery pay the same prices you do.

Mr. WALES: But many of the larger refineries are located close to the source.

Mr. DONNELLY: Take the one in Pennsylvania. They have to pay freight rates, and so forth, the same as you do.

Mr. WALES: What do you mean by the one in Pennsylvania?

Mr. DONNELLY: Take, for instance—

Mr. WALES: The one at Bradford? The are refining Pennsylvania crude. They buy it right at their refinery in Pennsylvania.

Mr. DONNELLY: Yes; but take other refineries in the United States; they have to pay freight on the gasoline they refine, which would offset the freight on the crude.

Mr. WALES: We are not attempting to say that the prices are just as high in the United States. I said this morning that the prices were lower and why they were lower. The reason they are lower is that they are selling at a loss.

Mr. DONNELLY: That does not tell the committee why you should have $2\frac{1}{2}$ cents protection when it only costs you $1\frac{1}{2}$ cents to refine. The cost of refining it is $1\frac{1}{2}$ cents, and yet you want $2\frac{1}{2}$ cents, and then a dumping duty besides to prevent distress gasoline from coming in.

Mr. WALES: Dr. Donnelly, I have not attempted to tell the committee anything about the duty and the dumping duty. I have only made a statement that the prices at which gasoline is being sold in the United States, it is being sold at a loss through distress prices. It is not a fair market price as laid down by our customs; therefore we could not meet those prices. I have proven they are not fair prices by submitting evidence in statements from the companies, a number of large companies who are selling at those prices, showing that they are selling at a loss. We could not meet those prices. We admit that is where the protection comes in, the dumping duty and the tariff comes in. We hope that if conditions adjust themselves in the United States, when you compare our prices in Canada, you will see that regardless of duty, our prices are just as low as the prices in competitive areas in the United States. Now, I have a statement here which shows you that has been the case in the years gone by. I can show you a statement here in which we have been able to meet prices without any question at all in the way of tariff or dumping duty.

Mr. MACMILLAN: Can you tell me what reflection the exchange will have on the $1\frac{1}{2}$ cents having regard to the fact that you must pay for your crude in American money?

Mr. WALES: Of course, exchange has been varying quite a lot, Mr. MacMillan.

Mr. MACMILLAN: Yes. It is a factor?

Mr. WALES: It is a big factor. As I pointed out this morning, we have to pay exchange not only on the price of the crude, but on the cost of transportation through pipe lines to the coast, and all of this marketing of crude and transporting it from the mid-continent to Chicago, including gathering charges and marketing charges, and they amount to almost as much as the crude. Take one illustration. Take 83 cents as being the amount for the crude, 73½ cents for transportation, marketing and gathering, it makes a total of $1.565.

Mr. BOTHWELL: Exchange has nothing to do with the cost of putting the crude oil through your plant.

Mr. WALES: I am just answering a question that was asked. It would make a difference of 23 cents a barrel, if you took the average for the last three months, which would be somewhere around 16 or 17 per cent. For the last four months it would be around 15 per cent. That would make a difference in the cost of around 23½ cents a barrel, crude, and that would be equivalent to a little over a cent a gallon on the gasoline.

Mr. DONNELLY: That would be even a greater protection on your gasoline, because when you refine your gasoline, you have to pay a bigger price for the gasoline, and it gives you bigger protection.

Mr. WALES: It also costs us more for crude. Our gasoline costs us over 1 cent a gallon.

Q. The price of gasoline would not be more, but if you import gasoline you would have to pay the exchange on the importation, and that would make it a higher price.

Mr. WALES: We are not importing gasoline; we purchase crude.

Mr. DONNELLY: No, but the independent distributor who imports gasoline, has to pay this exchange, and therefore it reacts to you in the way of further protection.

Mr. WALES: Our margin of profit in the ultimate analysis is quite small, I believe.

Mr. MACMILLAN: There seems to be a considerable amount of trouble with regard to what service station men are charged for evaporation. I understood Mr. Ross to say that they are now giving them one per cent to take care of evaporation. Why do they not meter the gas out instead of charging that? Would not that be better?

Mr. WALES: By meter, you mean, metering the outgoing gas?

Mr. MACMILLAN: Yes.

Mr. WALES: I think I know the reference that you are making, because I corresponded for some time with the Department of Weights and Measures in Ottawa on that very matter. But they were discussing the temperature adjustment changes, evaporation. I would be glad to file the whole matter with the committee; but the gist of it is this: We have always, in selling our dealers—we will take tank car dealers for example, in large quantities we can make a temperature adjustment, and it is the established practice in the business that in tank car shipments, the quantities shall be corrected to 60 degrees temperature. Now, when the buyer gets that gasoline, and he distributes it either in tank wagons, or if he happens to have a service station of his own, through his own service station, he finds it impossible, as do we, to make temperature corrections in quantities of 2, 3, and 5 gallons, and also the quantities which he sells in tank wagons of 100 or 150 gallons; so he sells the measured gallon. If he sells warmer than he bought from us, that is, warmer than 60 degrees, he makes a little profit on the expansion. If he sells at less than he bought it, he has to take the loss. We have found, throughout the year, those temperature adjustments pretty well balance up. Now, in evaporation, he loses that, and in making our adjustments, it is understood that on the basis of our arrangement with him, that is one of his costs in doing business, the same as if a man buys a barrel of sugar, and he sells to customers in five pound lots, he cannot check his retail sales against his barrel of sugar, because he has spilled a little of it at a time, but that is a legitimate cost of doing business. Now, if we are to absorb that evaporation, then we must obviously charge our dealer, and our dealer will get a little bigger margin for it in order to compensate us for taking up his loss. Does that answer your question?

Mr. MacMillan: Partly.

Mr. Wales: The meter question—

Mr. MacMillan: There seems to be an objection to the meter on the ground of its being too expensive. We put a water meter in the house, and it does not cost us $1,000.

Mr. Wales: Frankly, we do not have as much confidence—I know, speaking from the refinery point of view—we do not have as much confidence in a meter record as we do in gauging a tank.

Mr. MacMillan: A corrected gauge by the department?

Mr. Wales: We have not had enough experience with meters to tell you exactly whether it is going to check up or whether it is not.

Mr. MacMillan: Here is a letter from a man in Saskatchewan. He says, "I note from the Imperial Oil giving evidence, they state they allowed their agents 50 gallons of gasoline per month for shrinkage in the summer months. Now, as you well know, it is not enough; it should be raised to at least twice as much, and the agent should be allowed for the amount in the previous years." Now I do not know anything about it.

Mr. Wales: If they make a contract with an agent on a certain definite spread, and the conditions are that the agent stands his loss, if the agent does not want to stand his loss, then obviously the man from whom he buys will say, "You have not fulfilled the contract; we will have to change the spread; instead of giving you a commisison of $1\frac{1}{2}$ cents, you stand the loss, we will give you a commission of $1\frac{1}{4}$ cents, and we will stand the loss. It is a business detail.

Mr. MacMillan: There is no definite standard by which you deal with all agents alike?

Mr. Wales: There has been, yes.

Mr. MacMillan: What is it?

Mr. Wales: My understanding is they stand the loss.

The Witness: They stand the loss. We give them a certain amount, and they sell it at so much a gallon, and they stand the evaporation. At any rate it is very small.

By Mr. MacMillan:

Q. Is it a percentage on the gallon, or what?—A. So much a gallon, say $1\frac{1}{2}$ cents, or 2 cents a gallon for every gallon he sells, whatever the contract calls for.

Q. Is it a standard contract?—A. It depends entirely on the individual contract.

Q. A man might have to deliver 20 miles, and he is certainly entitled to more for delivering the 20 miles than if he went across the road.—A. The shrinkage would be the same. The shrinkage might be the same but we allow him enough for that delivery to cover all that. There might be a small shrinkage, but we will allow him that on his truck at the start. We take that into consideration.

Q. What I am saying is, it does not make any difference if you have to haul it 20 or 40 miles.—A. You asked me if there is any difference in the contract. I say yes; if a man travels a certain distance, he may get one cent, and if he travels farther out, he may get 2 cents a gallon.

Q. For what?—A. For making delivery.

Q. I am not talking about that, I am talking about shrinkage. Have you a standard rate which you allow, say a certain percentage, for shrinkage?—A. We will allow him enough for shrinkage when we make the contract.

Q. That is all considered?—A. That is all considered when we are making the contract with him.

Q. Is it standard? Do you deal with every individual alike in the matter of shrinkage?—A. We deal with every man alike; in fact we try to be more than fair with our employees, and try to keep them happy and doing business. I may say that is part of my duties, to keep my men happy and also to secure more business from my competitors. That is the only way I can do it. If a man is losing money, he is certainly not going to be a loyal employee.

Q. You say in western Canada, for instance, that the matter of shrinkage would be on a standard basis so far as your company is concerned?—A. So far as we are concerned, we make a standard deal with our agents.

By Mr. Geoffrion:

Q. It is a matter of contract?—A. Yes. We try to keep them absolutely happy.

The Chairman: I think I should point out to the committee that we are concerned with the price of gasoline to the consumer, and the matter of private contracts between the companies and their filling stations in my opinion does not come within the scope of the resolution.

Mr. MacMillan: There is a great deal of criticism of this particular angle of the business, and I should think that those gentlemen would be only too willing and too glad to give us any information in regard to this matter.

The Chairman: I do not think the time of the committee should be taken up with the private contracts made with the company.

Mr. MacMillan: It affects the price of gas, and the matter I was discussing affects the price of gas because it has been said out in western Canada by the agents that he had to short-gallonage the farmer owing to this particular shortage. That has been said.

Mr. Geoffrion: He might charge more, not short-weight.

Mr. MacMillan: That has been said.

The Witness: We would not want an agent of ours to short-measure any of our customers whatsoever. That is not our policy. We want everyone to have everything they pay for.

Mr. Bothwell: That evidence has been given, as I understand it. Agents, as I understand it, have given that evidence. It may possibly not be the McColl-Frontenac.

Mr. Geoffrion: A man who makes a contract with a company has no business to short-weight anyone.

The Witness: I think you will find all our men are very happy working for our company.

Mr. MacMillan: You have not got very much business.

The WITNESS: I will grant you that.

By Mr. Bothwell:

Q. You have a number of service stations in western Canada? Take from Fort William west.—A. Yes, we have a few, not a great many.

Q. You are distributing there; you are selling to independents?—A. Yes.

Q. And the gasoline that you handle out there is not your own product?—A. No, sir.

Q. What price do you have to pay for the gasoline; how much under those tank car prices that we have heard about.

Mr. GEOFFRION: This morning it was suggested—

The WITNESS: I do not think that is a fair question to ask, what we buy our gasoline for from competitors.

Mr. GEOFFRION: I suggest you might ask those from whom we buy; it is their secret, not ours. It is a secret of the Imperial Oil.

The CHAIRMAN: I think the Committee decided this morning that it did not want to hear the price paid by one company to another.

Mr. BOTHWELL: The point is this: if the Imperial Oil are able to sell at a considerably lesser price to a competitor than they are to the ordinary distributor, they must sell at a price that affords them a profit. What we are trying to get at is the cost, and the proper price of selling gasoline.

Mr. GEOFFRION: May I ask this: would it not be fair for you to ask that question of the Imperial Oil people? They may have an explanation for it. It might not be the true reason, but it is up to them to give it to you. We simply get a price, that is all. I suggest that the answer should come from the Imperial Oil.

Mr. BOTHWELL: It seems to me, Mr. Geoffrion, that the Committee should get this price from your company. Let the Imperial Oil do the explaining if they want to when they come here; but if the Imperial Oil is selling at a price differently from what they set out in the sheet that they filed here, surely we are entitled to get that information.

The WITNESS: Mr. Wales explained to you, Mr. Bothwell, that a refinery puts through a thousand or two thousand barrels of crude oil a day, and that refinery might make more than a refinery which does not put that much extra through. The extra business that they get from us might have a bearing on their total cost of business. I don't know that. I am not a refinery man. I would suggest that that probably might be the reason why they take that business from us.

Mr. GEOFFRION: We would prefer that that question be put to the Imperial Oil. It is really their affair. They can defend it; we cannot. We pay the price they ask us. We have an incomplete answer—

Hon. Mr. RALSTON: It is perfectly complete, namely, gasoline was bought at so much.

Mr. GEOFFRION: They may have good reasons—

Hon. Mr. RALSTON: The answer is complete.

Mr. BOTHWELL: May I take it it is fair to get the answer from the witness as to whether he did buy his gasoline cheaper than what is apparently the posted tank car price of the Imperial Oil.

The WITNESS: What is the tank car price?

Mr. BOTHWELL: Then we will come to the Imperial Oil and find out how much cheaper.

The WITNESS: Have you got on that list, Mr. Bothwell, the price at Winnipeg?

Mr. DONNELLY: No, Regina.

Mr. BOTHWELL: This is Toronto, Sarnia, Halifax, Montreal, Regina, Calgary, Vancouver. Well, we have Regina. Take Regina.

The WITNESS: I have not got that contract here, so I cannot really answer your question, Mr. Bothwell, because I did not make the contract. I do not know exactly what the price is we are paying.

By Mr. Bothwell:

Q. You buy from the Imperial Oil at Halifax?—A. No.

Mr. WALES: If you give us the same protection as you did this morning, Mr. Chairman, we can decide on that after I make this statement.

The CHAIRMAN: Yes.

Hon. Mr. RALSTON: What is the objection to having it on the record?

The CHAIRMAN: I think there are certain things that we should protect them on in connection with certain business secrets.

Hon. Mr. RALSTON: Now, it seems to me—

The CHAIRMAN: I do believe it would be a proper question to put to the Imperial Oil.

Hon. Mr. RALSTON: Here is the way it strikes me: this is the price that the McColl-Fronenac pay for gasoline for resale to the public. We want to know their spread, and what they make between the price they pay the Imperial Oil, and what they charge the customer. The second reason why we should get it is that it enters into the gasoline which the Imperial Oil sells and on which they show they made so much a gallon. I presume the receipts from the McColl-Frontenac are one of the things which went to contribute to their refining at so much per gallon, and a reduced price reduces the avearge profit on the gallon of gasoline. The question is whether or not it should be so spread and whether the McColl-Frontenac should get the benefit.

Mr. WALES: The gasoline deal is part of another deal.

Hon. Mr. RALSTON: It is gasoline that eventually finds its way to the jobber, and the consumer paid for it to the McColl-Frontenac. The amount paid by the McColl-Frontenac to the Imperial Oil surely is relative—

Mr. GEOFFRION: If the McColl-Frontenac sell at the regular price, a competitive price in the west—

Hon. Mr. RALSTON: We are trying to find out whether it is a competitive price.

Mr. GEOFFRION: The price is quoted by the other company. The price is put on by the Imperial Oil Company. They could refuse to sell us. They have a right to refuse to sell us and drive us out of the market and leave them alone in that district; but instead of that, they sell to us. Obviously it is an internal question in the management of the oil concerns, and has no concern with the public.

Hon. Mr. RALSTON: It is of a great concern to the public. What we want to find out is whether or not the price of gasoline is based on the cost of producing that gasoline that is sold to the McColl-Frontenac by the Imperial Oil, and what spread they are getting on the gasoline.

Mr. GEOFFRION: It is obvious the Imperial Oil will not sell us any more. That is all we will get.

The CHAIRMAN: We have the refining costs; we have the tank car costs and the tank wagon prices. We have their retail prices. Now, it seems to me that an internal arrangement between two companies that does not at all affect the price of gasoline—

Hon. Mr. RALSTON: I certainly do not agree with that.

The CHAIRMAN: —is not a subject for inquiry.

Hon. Mr. RALSTON: I say the best price is the price that it costs for refining. Costs are always a nebulous quantity. Would it not be best for the committee to find out how much they sell, and what they sell it for to one of their competitors in the business, the McColl-Frontenac.

The CHAIRMAN: We are getting the refining costs.

Hon. Mr. RALSTON: You are getting the figures, of course, but then you have to have auditors do all sorts of examning, when right off the bat you can get how much they are asking a competitor. You can get right off the bat what they are charging the McColl-Frontenac. Surely it must be relevant?

Mr. WALES: Mr. Chairman, I testified in regard to refining costs: I can say now that the price at which you sell a surplus quantity at the refinery of six or seven million gallons would be no indication what they could afford to sell a total output; because when you take extra business in your manufacturing costs go down. When your plant is running fairly full, and you take some extra business, and force your plant along, that busines can be done at a less cost than the existing business which you have made; and they might sell at a lower price without losing money on that extra business. That is so in manufacturing, and I am sure you will understand that.

Hon. Mr. RALSTON: I am just referring to the one point. This seems to me perfectly fair and perfectly relevant, how much do you pay the Imperial Oil for your gasoline. It is a real transaction in gasoline which takes place between two people in the conduct of their business.

By Mr. Bothwell:

Q. What proportion of your gasoline do you buy from the Imperial Oil?—A. Mr. Wales has just said we bought about 6,000,000 gallons.

Mr. WALES: All the rest of the gasoline, we will say, substantially, but the gasoline we make ourselves.

Mr. BOTHWELL: Can you give us the figures of how much you purchased?

Mr. WALES: This morning when you left it out of the record,. I said about 6,000,000; that is 6,000,000 last year. We bought a little more of it because we had some points in western Ontario that we were supplying.

Mr. MACMILLAN: Do you subdivide your business into eastern and western territories? Can you give us the profit you made on the western business?

Mr. WALES: Yes.

Mr. IRWIN: You cannot segregate sales.

Mr. WALES: What Mr. MacMillan means is of profits in the west and the buyers' profits. My recollection from the last statement I saw, was that our own profit in the whole of western Canada was approximately $80,000—about $80,000 and our (corrected to read $80,794.27 and $1,928,225.32) investment out there is $2,000,000. Now, that $80,000 is all the profit on gasoline, lubricating oil, greases and everything that we use, including all railway business and lubricating oils.

Q. What would be roughly, the return?—A. I can file a statement. It is really the smallest percentage.

By Mr. Donnelly:

Q. You have been extending credit to the western farmer?—A. We have extended some credit, yes.

Q. What percentage?—A. I cannot answer that.

By Mr. Howard:

Q. I would like to ask Mr. Pritchard a few questions in connection with his statement on the Sherbrooke statement. I have some comments here by you. You say the price I stated was 16½ cents. I notice since that time you have raised yours to 18·3.—A. That is the closest we could get, and that is March 23. You see, there may be some changes since that date.

Q. Naturally. The statement I made was 16½ and it was justifiable, and you raise it up to 18·3.—A. You might at that time—you could put it that way, but even so, our prices of 19 cents in Sherbrooke without any duty or dumping duty is in line with the price you paid for your gasoline across the line.

Q. Now, you assume that the grade that I got in Newport was not the same grade that you get in Canada. What reason have you for making that statement?—A. Because we know after tests made, we know the gasoline that is being sold in the district is about 60, 62, octane gasoline.

Q. You are only jumping at conclusions. It might have been the same grade I purchased at Newport as I purchased at Sherbrooke.—A. If you bought the 19 cent gasoline probably you would.

Q. Then you have given the price on the very lowest gasoline that is sold in Sherbrooke, whereas the big bulk of sales, if you look at it, is in the 32½ cent gas. Since the investigation started you have dropped your price one half a cent.—A. No. I noticed before the investigation it was dropped; we have not dropped our price on our high grade gasoline with our ethyl ingredients.

Q. It is 32½?—A. Thirty-two and a half, still 32½.

Q. Did you not say it was 32?—A. Thirty-two, whatever it is. We have reduced the price of our cyclo-ethyl gasoline one half a cent.

Mr. Wales: That is because the price of tetraethyl lead went down. I can answer that.

By Mr. Howard:

Q. Not due to the price of crude?—A. No.

Mr. Wales: No, it was due to a drop in the price of tetraethyl lead, and at the same time the price was dropped to the consumer one half a cent.

Mr. Howard: In spite of the fact that crude went up?

Mr. Wales: You must remember the gasoline that you are referring to there are other ingredients in it besides crude. A large part of the gas is made up of this red tetraethyl, high-priced red gasoline.

By Mr. Willis:

Q. Speaking now for the record, Mr. Pritchard, in regard to the Winnipeg field?—A. We only sell in Winnipeg and district to service stations and to people who operate pumps for resale.

Q. If a man was not tied up to any other company, could he buy from you in the Winnipeg field?—A. We are always glad to sell everybody. Is that what you mean?

Q. Yes, that is what I mean, partly. I am advised in the Winnipeg field an independent gas station operator could not purchase gasoline except from the Imperial people.—A. You mean in tank car quantities?

Q. In whatever quantities he wants.—A. The Imperial sell everybody the same as we will. We are all anxious for business.

Q. That is to say, your statement would be that there is no combine in the Winnipeg district.—A. I just love to sell to everybody.

Q. Here is a statement which a man made to me. He was an independent dealer, purchasing from the Imperial in the Winnipeg district, and he did not like their trade policy, so he decided to purchase from other dealers in St.

Boniface just across the river. He went across the river and he purchased one truck load of gasoline. The next day he went across to try to purchase another one, and he found the price had been stepped up to him to a much higher level than that at which the Imperial were selling to their own stations.—A. I cannot understand that, because there is one wholesale price to everybody, and we are all glad to sell as much as we can. If that fellow came to our place we would be very glad to deal with him the same way as we do with everyone.

Q. I don't know. This man made a statement to me that he could not purchase gasoline at a price lower than they sold at the stations; that is to say, he could go to a filling station of the Imperial Oil, and get it filled up there for resale, and that the price was the same to him.—A. Probably they did not class him as a jobber, a legitimate wholesaler. If that man could get his gas in tank cars he would be considered a legitimate tank car buyer.

Q. It would be a different policy in regard to men of that sort.—A. Absolutely, because anybody could get a truck and take 50 gallons from the refinery if they could get it at a tank car price, and there would be no other price. Do you see what I mean?

Q. Would you say therefore his statement is incorrect?—A. His statement is incorrect as far as not selling to him is concerned.

Q. You would sell to him on the ordinary wholesale price if he came to your plant in Winnipeg?—A. Yes, and I think any one of the other companies would be glad to do the same thing.

The CHAIRMAN: Are there any other questions to ask this witness?

Mr. BOTHWELL: I have another question I would like to ask.

By Mr. Bothwell:

Q. Are you putting out a cheaper grade of gasoline at the present time than your standard?—A. Yes sir, we are.

Q. How much less are you selling it for?—A. We are selling for one cent less than our regular standard grade at the wholesale.

Q. But it is sold by the operators at $2\frac{1}{2}$ cents less?—A. I understand there was a reduction in Montreal the other day, of about 3 cents in gasoline.

Q. That is a cheaper grade of gasoline?—A. Two and a half cents less altogether.

Q. As far as your company is concerned, you have only reduced it.— —A. One cent. Reduced tank wagon price one cent, to $16\frac{1}{2}$ cents at Montreal.

Mr. WALES: To the public it is more than one cent.

Mr. HOWARD: To the public. That is the difference you gave a moment ago in your figures, from 32 to 25.

The WITNESS: No; that is a different grade, a different grade altogether. There are three grades of gasoline.

By Mr. Howard:

Q. Then you gave us in here what we call the "bum grade"?—A. Yes, sir.

Q. You certainly gave a good comparison.—A. We want to have a correct comparison.

By Mr. Bothwell:

Q. This is a new grade of gasoline altogether that came out a few days ago?—A. Yes.

Q. That you are selling to the public at how much less?—A. I think $2\frac{1}{2}$ cents less, sir.

By Mr. Donnelly:

Q. In tank cars, or what?—A. Service stations. That is what you are after, the service stations?

By Mr. Bothwell:

Q. What is the difference in the tank car price?—A. Tank wagon?
Q. Tank car.—A. We are not selling that grade of gasoline—
Q. What is the difference in the tank wagon?—A. One cent a gallon.

By Mr. Willis:

Q. Is that a coloured gas?—A. No, white.
Q. Is that the lowest grade you sell?—A. Yes.
Q. What is the second one, coloured?—A. Yes.
Q. What colour?—A. Blue.
Q. What is the highest grade?—A. Red, cyclo-ethyl.

By Mr. Donnelly:

Q. All the companies are putting out a cheaper gas now?—A. Yes.

Q. The Imperial Oil, the British American, and yourselves?—A. I understand so.

Q. Are they all approximately the same grade?—A. Yes.

Q. I cannot see anything in it but this—A. I can only tell you about our own.

Q. How is it the Imperial Oil can give a price of three cents a gallon, and you can give only one cent a gallon?—A. I do not know.

Q. You give 2½ cents, and the Imperial Oil three cents, I think.—A. At Montreal it is the same, 2½ cents, I think.

Q. At Montreal?—A. The same as we, anyway, 2½ cents.

Q. Just before we close, may I ask this. In 1930 when you made your representations to the government for an increase in duty did you present a memorandum to the government, that is the McColl Frontenac, asking for the increase? Do you know?—A. Now sir, I cannot answer that question.

Mr. WALES: I can answer that. The only representation we put in was the one which has already been submitted by the Imperial Oil and incorporated in the record, and signed by us.

Mr. DONNELLY: You also signed a guarantee you would not take advantage of the protection and increase your price to the public?

Mr. WALES: To the consumer.

Mr. DONNELLY: Before the government put any price for duty purposes, or fixed a price for duty purposes, did you sign a memorandum to the government, asserting why they should fix the price?

Mr. WALES: Are you referring to the dumping duty?

Mr. DONNELLY: Yes.

Mr. WALES: Nothing except what we have signed jointly with the Imperial Oil, which I believe is in the record. I did not read it all.

Mr. DONNELLY: You put in a memorandum asking them to fix the general price for duty purposes.

Mr. WALES: I do not know that you can say that we put in a memorandum asking them to fix the price.

Mr. DONNELLY: Presenting your side of the case, why you thought it should be done.

Mr. WALES: Yes, we did join with the others outlining why we thought it should be so and so, and how we thought it would be a fair way to arrive at it.

Mr. MACMILLAN: That is all in the record.

Mr. WALES: They did not accept our recommendations, I might say; it was a sort of compromise, the policy they accepted.

Hon. Mr. RALSTON: The memorandum is on page 109. Is that the one?

Mr. WALES: Yes; we signed it.

Hon. Mr. RALSTON: Is that the only memorandum?

Mr. WALES: I think there is another one in here in regard to the original tariff of $2\frac{1}{2}$ cents.

By Mr. Bothwell:

Q. You told us that your earnings on the investment in service stations would be about $3\frac{1}{2}$ per cent.—A. I said the interest which we received from leased stations, from our own stations that are leased, would be on the average about $3\frac{1}{2}$ per cent. Practically, what you call rent. He pays us so much rent, and the whole total figures up to about that.

Q. It is about $3\frac{1}{2}$ per cent on the investment there?—A. Just about $3\frac{1}{2}$ per cent on the investment.

Q. That would be a fair statement to make, that your earnings on your service stations come to about $3\frac{1}{2}$ per cent on the investment?—A. We are fortunate in having this policy where the other companies operate their own stations. It is just a question of policy.

Q. What are your earnings on your total investment?—A. What are our earnings on our total investment?

Q. Yes.—A. I guess Mr. Brooks could tell you that.

The CHAIRMAN: The next meeting of the committee will be on Tuesday, April 5. The witnesses will be the officials of the British American Oil Company.

Committee adjourned to meet on Tuesday, April 5, 1932.

APPENDIX

Filed by McColl-Frontenac Oil Co., Ltd.

OWN PRODUCTS "A"

—	Gasoline				
	Imperial gallons sold	—		Per Imperial gallon	
		$ cts.	$ cts.	cts.	cts.
Gross Sales	57,873,452		9,541,028 61		16·49
Less—					
Freight and trucking refinery to destination		709,124 82		1·23	
Taxes		103,044 71		0·18	
Sales tax		166,463 96		0·29	
Marketing expense		1,343,355 48		2·32	
General administration and depreciation expense		997,320 69		1·72	
			3,319,309 66		5·74
Net to refinery			6,221,718 95		10·75
Less—					
Purchase of crude oil and other material		4,102,277 28		7·09	
Inventory adjustments		*14,843 22*		*0·02*	
Total cost crude oil and other materials		4,087,434 06		7·07	
Manufacturing expense		931,754 49		1·61	
Depreciation		149,469 72		0·26	
Taxes		55,365 39		0·09	
Total manufacturing cost			5,224,023 66		9·03
Net earnings before interest on borrowed money and Federal Income Tax			997,695 29		1·72

Filed by McColl-Frontenac Oil Co., Ltd.

PURCHASED IN FINISHED OR SEMI-FINISHED STATE

—	Gasoline				
	Imperial gallons sold	—		Per Imperial gallon	
		$ cts.	$ cts.	cts.	cts.
Gross Sales	7,220,876		1,482,085 94		20·53
Less—					
Freight and trucking refinery to destination		23,536 18		0·33	
Taxes		16,000 15		0·22	
Sales tax		....		....	
Marketing expense		208,588 02		2·89	
General administration and depreciation expense		154,857 85		2·14	
			402,982 20		5·58
Net to Refinery			1,079,103 74		14·95
Less—					
Purchases of crude oil and other materials		1,046,368 88		14·49	
Inventory adjustments		13,529 80		0·19	
Total cost crude oil and other material		1,059,898 68		14·68	
Manufacturing expense		....		....	
Depreciation		....		....	
Taxes		....		....	
Total manufacturing cost		....	1,059,898 68		14·68
Net earnings before interest on borrowed money and Federal Income Tax		....	19,205 06		0·27

GASOLINE PRICES IN CITIES WHERE IMPERIAL OIL REFINERIES ARE LOCATED

—	Halifax			Montreal			Sarnia			Regina			Calgary			Vancouver		
	Tank Car	Tank Wagon	Service Station	Tank Car	Tank Wagon	Service Station	Tank Car	Tank Wagon	Service Station	Tank Car	Tank Wagon	Service Station	Tank Car	Tank Wagon	Service Station	Tank Car	Tank Wagon	Service Station
1930	$ c.	$ c.	$ c.	$ c.	$ c.	$ c.	$ c.	$ c.	$ c.	$ c.	$ c.	$ c.	$ c.	$ c.	$ c.	$ c.	$ c.	$ c.
Jan. 1st	16 00	22 00	26 00	13 60	20 50	24 00	13 20	18 50	22 00	19 90	26 00	30 00	21 40	23 50	27 00	19 20	21 00	25 00
Feb. 1st	15 70	22 00	26 00	13 30	20 50	24 00	12 90	18 50	22 00	19 90	26 00	30 00	21 40	23 50	27 00	19 20	21 00	25 00
March 1st	15 20	22 00	26 00	12 80	20 50	24 00	12 40	18 50	22 00	19 30	26 00	30 00	20 80	23 50	27 00	18 60	21 00	25 00
April 1st	15 20	22 00	26 00	12 80	20 50	24 00	12 40	18 50	22 00	19 30	26 00	30 00	20 80	23 50	27 00	18 60	21 00	25 00
May 1st	15 80	20 00	24 00	13 40	20 50	24 00	13 00	18 50	22 00	19 90	26 00	30 00	21 40	23 50	27 00	19 20	21 00	25 00
June 1st	15 80	20 00	24 00	13 40	20 50	24 00	13 00	18 50	22 00	19 90	26 00	30 00	21 40	23 50	27 00	19 20	21 00	25 00
July 1st	15 80	20 00	24 00	13 40	20 50	24 00	13 00	18 50	22 00	19 90	26 00	30 00	21 40	23 50	27 00	19 20	21 00	25 00
August 1st	15 80	20 00	24 00	13 40	20 50	24 00	13 00	18 50	22 00	19 40	26 00	30 00	20 90	23 50	27 00	18 70	21 00	25 00
Sept. 1st	15 00	20 00	24 00	12 60	20 50	24 00	12 20	18 50	22 00	19 40	26 00	30 00	20 90	23 50	27 00	18 70	21 00	25 00
Oct. 1st	15 50	20 00	24 00	13 10	20 50	24 00	12 70	18 50	22 00	20 10	26 00	30 00	21 60	23 50	27 00	19 40	21 00	25 00
Nov. 1st	15 50	19 00	23 00	13 10	19 50	23 00	12 70	17 50	21 00	18 40	25 00	29 00	19 90	22 50	26 00	17 70	21 00	25 00
Dec. 1st	15 50	19 00	23 00	13 10	19 50	23 00	12 70	17 50	21 00	18 40	25 00	29 00	19 90	22 50	26 00	17 70	21 00	25 00
1931																		
Jan. 1st	15 50	19 00	23 00	13 10	19 50	23 00	12 70	17 50	21 00	18 40	25 00	29 00	19 90	22 50	26 00	17 70	21 00	25 00
Feb. 1st	15 50	19 00	23 00	13 10	19 50	23 00	12 70	17 50	21 00	18 40	25 00	29 00	19 90	22 50	26 00	17 70	21 00	25 00
March 1st	15 50	19 00	23 00	13 10	19 50	23 00	12 70	17 50	21 00	17 40	24 00	28 00	18 90	21 50	25 00	17 70	21 00	25 00
April 1st	15 00	18 50	22 50	12 60	17 00	20 50	12 10	16 00	19 50	15 40	22 00	26 00	16 90	19 50	23 00	16 00	19 00	23 00
May 1st	15 00	18 50	22 50	12 60	17 00	20 50	12 10	16 00	19 50	15 40	22 00	26 00	16 90	19 50	23 00	16 00	19 00	23 00
June 1st	15 00	18 50	22 50	12 60	17 00	20 50	12 10	16 00	19 50	15 40	22 00	26 00	16 90	19 50	23 00	16 00	19 00	23 00
July 1st	15 00	18 50	22 50	12 60	17 00	20 50	12 10	16 00	19 50	15 40	22 00	26 00	16 90	19 50	23 00	16 00	19 00	23 00
August 1st	15 00	18 50	22 50	12 60	17 00	20 50	12 10	16 00	19 50	15 40	22 00	26 00	16 90	19 50	23 00	16 00	19 00	23 00
Sept. 1st	16 90	20 00	24 00	14 50	18 50	22 00	14 00	17 50	21 00	17 90	23 50	27 50	19 40	21 00	24 50	16 00	19 00	23 00
Oct. 1st	17 40	20 00	24 00	15 00	18 50	22 00	14 50	17 50	21 00	17 90	23 50	27 50	19 40	21 00	24 50	16 00	19 00	23 00
Nov. 1st	18 40	20 00	24 00	15 00	17 50	21 00	14 50	17 50	21 00	17 90	23 50	27 50	19 40	21 00	24 50	16 00	19 00	23 00
Dec. 1st	17 40	20 00	24 00	15 00	17 50	21 00	14 50	17 50	21 00	17 90	23 50	27 50	19 40	21 00	24 50	16 00	19 00	23 00
Present Prices	17 00	20 00	24 00	13 50	17 50	21 00	14 50	17 50	21 00	17 90	23 50	27 50	19 40	21 00	24 50	16 00	19 00	23 00

NOTE:—Above tank car prices are for Royal Gasoline, which grade represented, in 1931, over 80% of our total sales of motor gasoline in tank cars. The present tank car selling price of Premier or Three Star grade is 1½ c. per gallon below the tank wagon price at all points throughout Canada.

NOTE:—Above tank wagon and service station prices cover Premier grade in the West and Three Satr grade in the East, these two brands representing over 90% of our total sales of motor gasoline sold by these methods of delivery.

Toronto, March 24, 1932.

Filed by McColl-Frontenac Oil Co. Ltd.

NET PROFIT AND LOSS OF AMERICAN OIL COMPANIES

—	Invested capital and surplus as at Dec. 31, 1929	1929	1930	1931
	$ cts.	$ cts.	$ cts.	$ cts.
Atlantic Refining Co.	131,030,582 00	17,332,417 00	2,742,688 00	513,750 00
Barnsdall Corporation	52,307,795 00	7,205,161 00	5,130,890 00	_3,268,637 00_
Continental Oil Co.	147,261,561 00	9,028,660 00	255,598 00	_12,045,575 00_
Phillips Petroleum	122,165,373 00	13,212,591 00	3,040,630 00	_5,576,409 00_
Shell Union Oil Corporation	238,436,199 00	17,573,249 00	_5,039,909 00_	*_23,641,126 00_
Simms Petroleum Co.	16,459,179 00	2,328,802 00	_1,475,518 00_	_2,651,222 00_
Skelly Oil Co.	38,097,323 00	5,786,490 00	1,916,871 00	_2,117,110 00_
Tidewater Association	147,905,375 38	15,641,385 00	9,940,307 00	*175,711 00
Texas Corporation	445,497,248 00	48,318,072 22	15,073,303 18	_9,954,478 47_
Gulf Oil Corporation	336,779,260 00	44,489,686 00	10,625,252 00	_23,670,052 00_
	1,675,939,895 38	180,916,513 22	42,210,112 18	_82,235,148 47_

*For 9-month period only.

Filed by McColl-Frontenac Oil Co. Ltd.

"A" OPERATING STATEMENT

Description	1930		1931	
	Barrels	Per cent total	Barrels	Per cent total
Toronto Refinery—				
Crude Oil Run	1,267,903	......	1,277,627	......
Refined Prod. Produced—				
Gasoline	719,061	56·71	696,666	54·53
Light fuel oils	42,134	3·32	65,855	5·15
Heavy "	355,242	28·02	353,351	26·66
Gas	108,623	8·57	108,435	8·49
Loss	42,843	3·38	53,320	4·17
	....	100%	....	100%
Montreal Refinery—				
Crude Oil Run	1,085,721	....	1,714,904	....
Refined Prod. Produced—				
Gasoline	581,555	53·56	859,384	50·12
Light fuel oils	50,311	4·63	227,622	13·27
Heavy "	324,929	29·93	438,729	25·58
Gas	105,331	9·70	145,461	8·48
Loss	23,595	2·18	43,708	2·55
	....	100%	....	100%
Totals—				
Crude Oil Run	2,353,624	....	2,992,531	....
Refined Prod. Produced—				
Gasoline	1,300,616	55·26	1,556,050	52·00
Light fuel oils	92,445	3·93	293,477	9·81
Heavy "	680,171	28·90	792,080	26·47
Gas	213,954	9·09	253,896	8·48
Loss	66,438	2·82	97,028	3·24
	....	100%	....	100%

"B" REFINING COSTS FOR CRUDE RUN

—	1930		1931	
	Per Bbl.	Per Gal.	Per Bbl.	Per Gal.
	$	cts.	$	cts.
(1) *Without Depreciation*—				
Toronto Refinery	0·533	1·522	0·493	1·408
Montreal Refinery	0·585	1·671	0·396	1·131
Average all Refineries	0·556	1·588	0·437	1·248
(2) *With Depreciation*—				
Toronto Refinery	0·614	1·753	0·593	1·691
Montreal Refinery	0·708	2·022	0·508	1·451
Average all Refineries	0·656	1·877	0·538	1·537

"C" PIPE LINE TARIFFS

—	Oklahoma to Chicago	North Texas to Houston	Pan Handle to Houston	East Texas to Houston
	cts.	cts.	cts.	cts.
Marketing charge	5	5	5	5
Gathering charge	20	12·5	12·5	10
Trunk line charge	46	31	37·5	22·5
Terminal charge	2·5	2·5	2·5	2·5
	73·5	51·0	57·5	40·0

Plus surcharge equal in value to 1% on value of crude oil delivered into the pipeline.

"D" TANKER RATES

	cts.
Chicago to Toronto	40
Montreal to Toronto	30
Houston to Montreal	35

SESSION 1932

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

TUESDAY, APRIL 5, 1932

No. 7

Reference.—Price of Gasoline

WITNESSES:

Mr. A. L. Ellsworth, President, British American Oil Co., Ltd.; Mr. H. H. Brondson, Comptroller; Mr. P. W. Binns, General Sales Manager.

Appendix,—Statement of Gross Revenue and Net Earnings.

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1932

MINUTES OF PROCEEDINGS

House of Commons,

Tuesday, April 5, 1932.

The Committee convened at 10.30 a.m., adjourned at one p.m., and re-convened at four o'clock, Mr. Matthews presiding.

Members present: Messrs. Arthurs, Bothwell, Ganong, MacKenzie, Matthews, Perley, Pettit, Ralston, Smoke, Stanley.

Officers of the British American Oil Company, Limited, were in attendance.

Mr. A. L. Ellsworth, President; H. H. Brondson, Comptroller, and P. W. Binns, General Sales Manager, were severally called, sworn and examined.

The Committee adjourned at the call of the Chair.

A. A. FRASER,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

TUESDAY, April 5, 1932.

The Select Standing Committee on Banking and Commerce met at 10.30 o'clock, Mr. Matthews presiding.

The CHAIRMAN: Gentlemen, the enquiry will proceed. Representatives of the British American Oil Company are here, and the first witness will be Mr. Ellsworth, the president.

A. L. ELLSWORTH, called and sworn.

Might I say that I have two of the officers of the company here, Mr. Binns, who will deal with matters of marketing, and Mr. Brondson, who will deal with matters of cost.

Mr. BOTHWELL: I think it might be well, Mr. Chairman, if we take a statement from the general manager.

By Mr. Bothwell:

Q. You are the president and General manager, are you?—A. We have no general manager. I am president of the company, Mr. Bothwell.

Q. Mr. Ellsworth, you company operates refineries in Montreal and Toronto?—A. We do.

Q. These are the only two refineries that your company has?—A. These are all.

Q. This company was incorporated in 1909?—A. Under Dominion charter, yes, in 1906 under Ontario charter.

Q. Under the Dominion charter in 1909 you were authorized to issue 400,000 shares of stock in the company at a par value of $25?—A. No; in 1909 the par value of our shares was $100.

Q. It was $100?—A. Yes.

Q. Then, will you give me the capital setup from 1909?—A. In 1909 under the Dominion Companies Act, we obtained authorized capital of $500,000, divided into 2,500 shares of preference stock and 2,500 shares of common stock.

Q. When did the first change take place?—A. From $100 par, to $25?

Q. Yes.—A. December 10, 1920.

Q. Just what change did take place then?—A. Up to that time we had 60,000 shares of a par value of $100 each—15,000 rather, and they were converted to 60,000 shares with a par value of $25.

Q. That was when?—A. In 1920.

Q. That is all that was issued. You mean the 15,000 shares that were converted to 60,000 shares?—A. That is all.

Q. Then when was the next capital change? Was there any additional stock sold at that time when you made that change?—A. Not at that time.

Q. So that up to 1920 all that you had issued was 60,000 shares of common stock?—A. Quite so.

Q. When did the next change take place?—A. January 15, 1927.

Q. Or was it 1926?—A. 1927. We issued four shares for one. We had issued at that time 274,000 shares of a par value of $25.

Q. Between 1920, then, and December 1927, you had increased the issue of stock from 60,000 shares—A. To 274,000?

Q. I would like you to be careful of that date. I am taking it from Poor's Manual report, and it states the division was made on December 15, 1926.—A. That is the record I have here, Mr. Bothwell, January 15, 1927.

Q. Prior to that change then, in 1827, you had made another offering of stock to your shareholders in 1925, had you not?—A. Yes. We offered 44,000 shares at a price of $30 per share:

Q. The subscribers were entitled to one for each five of stock held?—A. That is true.

Q. That was in 1925?—A. June 1925.

Q. Now, coming to your division in 1927 of four for one, after you made that division, how much stock had you outstanding?—A. We had 1,096,000 shares.

Q. Then in June, 1927, you issued additional stock to shareholders, did you not?—A. Yes, to the total of 215,321 shares.

Q. That was issued on what basis?—A. It was $17.50 per share?

Q. What rights would shareholders have?—A. That would be on the basis of one for five.

Q. That was in June, 1927?—A. That was in June 1927.

By Mr. Donnelly:

Q. What price was it you paid for that?

Mr. BOTHWELL: It was $17.50.

By Mr. Bothwell:

Q. All that issue was absorbed by present shareholders, by the original shareholders?—A. Quite so; it was sold directly to the shareholders.

Q. So that the issue in 1925 was absorbed by the shareholders?—A. Yes.

Q. And the next change in your capital set-up came when?—A. February 26, 1930. We converted 1,311,321 shares into 2,622,642 shares.

Q. That is, you made a split of two for one?—A. Two for one.

Q. In 1930?—A. Yes.

Q. During those years from 1909 down the company has paid regular dividends?—A. Yes. I might say there, there was no payment of a dividend in 1909, and none in 1910, none in 1911 or 1912; but in 1913 we paid a dividend equivalent to eight per cent on the issued capital from 1909. The preference stock was cumulative.

Q. Reading from the financial analysis of the company, will you tell me if this statement is correct. It is dated March 18, 1930: "On the old $25 par value shares the company paid eight per cent annually to the end of 1926?"—A. I think that is correct.

Q. "In April, 1926, the quarterly rate was raised from two per cent to $2\frac{1}{2}$ per cent, and continued until the end of that year?"—A. I think that is correct.

Q. "Extra payments," that is, bonus payments I presume, "of two per cent was made from 1922 to 1926, inclusive?"—A. I believe that to be correct.

Q. And then, there is this other statement: "Company's dividend history has been continuous since 1909."—A. That is in effect, although payments were not made in the years I have stated.

Q. Did I understand you to say then, Mr. Ellsworth, that in the year 1930 you paid up back dividends?—A. 1913.

Q. You paid up back dividends?—A. Back dividends to 1909.

Q. By the way, a cash dividend was paid in stock bonus?—A. Paid by cash. We have never on any occasion issued any stock dividends, Mr. Bothwell.

Q. Now, this stock so far as the company is concerned, has never been offered to the public since your original public offer in 1909?—A. That is true.

Q. The shareholders have absorbed all issues?—A. Quite so.

By the Chairman:

Q. The stock has been publicly quoted?—A. Oh yes; shareholders would sell and others would buy.

By Mr. Bothwell:

Q. What I am asking is, the offering from the standpoint of the company has never been to the public?

The CHAIRMAN: Quite so.

By Mr. Bothwell:

Q. Now, since the split-up in 1930, you have regularly paid dividends. On January 2, 1930, you paid a dividend of fifty cents, bonus; then you paid a bonus of fifty cents in addition to the regular dividend of twenty-five cents.—A. That was when?

Q. January, 1930.—A. Yes; that was in respect to the year 1929.

Q. When?—A. Our split of two for one did not take place until February 26, 1930, therefore the payment to which you have just referred applied against 1,311,321 outstanding on the common in 1929.

Q. Then you paid forty cents dividend on April 1, 1930. Was that paid on the new stock, or on the old stock; that is, on the split stock?—A. That was paid on the old stock.

Q. That was paid on the old stock?—A. Yes. While the conversion took place in February, 1930, the shares did not issue until May.

Q. As soon as—.—A. So that any payment would be upon the old basis prior to the split.

Q. Well then, you started your dividends on the new stock in July, 1930.—A. That is true.

Q. Of twenty cents a share?—A. Yes.

Q. That has been regularly paid quarterly since?—A. Continued, yes.

Q. To the present time?—A. To the present time.

Q. Have there been any bonuses paid since this split up?—A. None.

Q. Have you your financial statement, that is your annual statement, the statement for 1931?—A. 1931, yes. Would you like it? I have a number of other copies Mr. Bothwell.

Q. I think it would be well to have a copy filed.—A. If any of the other members of the committee would like a copy, I have a number here.

Q. In this statement you show depreciation of $1,138,328.69.—A. Yes.

Q. On what basis do you arrive at the depreciation?—A. We use a schedule of allowances made by the taxation department at Ottawa.

Q. Taxation— —A. Dominion government taxation of property.

Q. Can you give the committee the basis of that? How is that depreciation arrived at?—A. Yes, we can give you that in detail, accompanying our statement, building 2½ per cent, I have the schedule here if you would like it.

Q. I think it might be well for the information of the committee if you could give us that, shortly?—A. The rates allowed by the taxation department of the Dominion government, brick buildings 2½ per cent; frame buildings 5 per cent; galvanized buildings 7½ per cent; miscellaneous construction 7½ per cent.

Q. What is that? What does that miscellaneous construction include?—A. Everything that is not classified, Mr. Bothwell. It is the same as buildings; storage tanks 5 per cent; office furniture 10 per cent; machinery and equipment

10 per cent; service station buildings 7½ per cent; equipment 20 per cent; miscellaneous construction 7½ per cent; tank cars are designated at the rate of five per cent per annum; and drums and barrels at a similar rate.

Q. Can you give us the amount of your depreciation at the end of April, 1930?—A. I think it was $1,017,848.45. I might say there that the basis of rates of depreciation was the same as 1931.

Q. In 1929 was it the same?—A. In 1929 the same. Those rates have been fixed for some years.

Q. What was the depreciation in your property in 1929?—A. $874,000. I quote that from memory. I am not far wrong, I think.

By Mr. Motherwell:

Q. It was $874,499.33.—A. That is right.

Q. From the statements as I have them here, it shows that your depreciation has been running very much the same in the years up to 1929, and the depreciation has considerably increased in 1930 and 1931. Is that because of expansions to your plant?—A. I do not think the figures will substantiate that, Mr. Bothwell. We have used the same rates over quite a number of years.

Q. The rates may be the same. How do you explain the difference between $874,000, and $1,138,000?—A. Added assets subject to depreciation.

Q. Enlargement of your plant or something of that kind?—A. Yes.

Q. There is a statement that has been published, which has come to my attention from different sources, that I would like to ask you about in connection with this depreciation. It is a statement that is supposed to have been made by the chairman of the board, S. R. Parsons, on February 25, 1930, at the annual meeting of shareholders. "Dealing with an item of $874,000, he said that $174,000 or $700,000 less than the amount set aside, would have been sufficient. A larger amount was written off because nine per cent of the net revenue is payable to the Dominion government for taxes. With respect to such, a nominal write-off would have substantially increased earnings per share as indicated in the figures presented in the foregoing."—A. When was that statement made?

Q. That is the finacial statement?—A. There must be—

Q. Dated March 18, 1930, and the statement is contained in it that at the annual meeting of shareholders held on February 25, 1930, the chairman of the board, S. R. Parsons, made this statement?—A. 1930?

Q. Yes. Referring to the 1929 depreciation item?—A. I cannot understand the statement. Depreciation of automotive equipment, drums and barrels in 1929 was in excess of $300,000. I was not present at the annual meeting in 1930. I did not hear the statement. If Mr. Parsons made such a statement—I have no reason to question what you say—he was unduly optimistic. In 1929 you will remember, values were very high, commodities were increasing in price, a building which probably three or four years before cost $50,000, might have been sold for $75,000. We know what stock values were at that time. We considered we had values, where in the light of subsequent events there was no substance to what we had, or very little. The rates on depreciation that we charge are not excessive; they are not beyond what are allowed by the Treasury Department of the United States.

Q. You have told us what rates are allowed by the Dominion government?—A. Yes. I wish to make a statement now. The Treasury Department of the United States allow higher rates on depreciation than are allowed by our Dominion government.

Q. In what respect?—A. In the refining industry. I have a telegram which I will be glad to read. I just received that telegram this morning.

Q. Have you the actual basis of the depreciation allowed by the United States?—A. May I read the telegram? I sent a telegram yesterday to our office in Tulsa, Oklahoma, asking them to obtain for me the rates of depreciation allowed by the United States government. I received this telegram in reply:

> United States Treasury Department has no fixed rate depreciation refinery equipment average rates taken and usually allowed five per cent buildings ten per cent tankage twelve and half to twenty per cent stills and other general refinery equipment average being about fifteen per cent stop this information obtained from responsible tax experts Tulsa.

Comparing these rates with the rates I have quoted, it is quite apparent that the United States government allowances are greater than those of the Dominion of Canada.

Q. Well, you do not know whether that statement was made or not by the chairman of the board?—A. I do not question it.

Q. You do not question it?—A. No.

Q. Now, I want to get from you the gross revenue—I have what is apparently the gross revenue—and the net profit for the years 1927, 1928, and 1929. I want to get them also for the years 1930 and 1931.

Mr. Ganong: The rest of us have not those for the years 1928 and 1929. Give them to us for the whole of that period so that the rest of us will have the information also.

The Witness: I have not the figures for the year 1928 here, or 1927, rather. We have 1928, 1929, 1930, and 1931. You asked me a moment ago for the figures for 1930.

By Mr. Bothwell:

Q. I think it might be well, seeing the question has been asked, if you could give them to us for the years 1928, 1929, 1930, and 1931.—A. Very well.

Q. While you are preparing that, I think it would be well to give us the gross revenue, the depreciation each year, the net profits in each year.

Mr. Ganong: Yes.

By Mr. Bothwell:

Q. I think that is all I want in regard to the capital set-up, Mr. Ellsworth. Now, just a few general questions. Most of your business is carried on in Canada, is it?—A. We sell nothing outside of Canada.

Q. Have you any subsidiary companies in Canada?—A. Yes. We have a company named the Britamolene Company, and the Britamoil Limited. Each one of those companies owns a tank ship for the transporting of crude oil or finished product.

Q. Are these the only subsidiaries you have in Canada?—A. These are the only subsidiaries we have.

Q. Then you have subsidiaries in the States?—A. We have; we have two companies in the States, one a producing company, and the other a pipe line company. It is really a gathering company, not a pipe line company, to the extent that a trunk would be. It operates over a small area; it does not transport for any distance.

Q. Is that what you call the Toronto Pipe Line?—A. Yes.

By Mr. Donnelly:

Q. It is piped into the main pipe line?—A. Yes; we pipe it into another pipe line which we do not own or control.

Q. A common carrier?—A. A common carrier, and it goes to the gulf.

By Mr. Bothwell:

Q. Have you crude oil holdings or leases outside of Canada?—A. Yes. You named the Toronto Pipe-Line company as one of our companies. The name of the other is the British American Oil Producing Company. Both of those companies are Delaware companies. The producing company owns properties, owns wells. We have a potential production in the United States of between 300,000 and 250,000 barrels of crude per day. The producing company was incorparated in 1924. While we have a potential production of 300,000 to 350,000 barrels per day, we are allowed to produce under the laws of Oklahoma and Texas less than 2,500 barrels per day.

Q. When did that become effective?—A. There has been a measure of pro ration for quite a number of years which has been very drastic, became very drastic in 1931.

Q. Did you ever run your plant there to capacity?—A. We have no plants.

Q. To produce 350,000 barrels of crude?—A. No; at no time were we able to produce to the full extent of the wells.

Q. What was your maximum production before, actual production?—A. I have not those figures.

Q. I just wanted to see to what extent the restriction had prevented you from producing.—A. I cannot give you the quantity, but I can say in the East Texas field where we have some wells capable of doing 35,000 to 45,000 barrels each per day, we were allowed to produce 72 barrels a day.

By Mr. Donnelly:

Q. How long has that been in effect?—A. The number of barrels has changed from time to time, they were 75, they were 85—

Q. That pro ration was applied at what time?—A. I have not the date, sir.

Q. Some time in July, was it not?—A. I think it was earlier than that, but I have not the date. In Oklahoma where we have some wells which will produce 50,000 barrels a day, we were allowed to produce 25 barrels a day, plus one half of one per cent of the potential; in other words, in a 50,000 barrels well, we would be able to produce 250 barrels per day.

Q. You can give us that figure, as to what your Oklahoma production was in those years?—A. Yes.

Q. You can let us have them?—A. Yes.

Q. Do you produce all the crude oil you need yourselves, or do you buy it? —A. We have to buy our requirements of about 10,000 per day. We are allowed to produce, under the present pro ration laws of Oklahoma and Texas, not more than 2,500 barrels a day.

Q. You have no other fields except those American fields?—A. None other than those.

By Mr. Bothwell:

Q. As a matter of fact, you have always bought from outside companies as well as what you produce yourselves?—A. Yes, it is only in 1930 and 1931 we have what we might term substantial production.

Q. Are your shareholders Canadians or foreigners? Can you give me the percentage of Canadian shareholders?—A. Yes.

Q. And the foreign or outside shareholders, and the amount of stock they hold?—A. Yes. We have issued 2,622,642 shares. These shares are of two classes, registered shares and warrant shares. The registered shares are to the total of the difference between 1,031,039 and 2,622,642.

By Mr. Donnelly:

Q. What is that again?—A. 2,622,642. The division of the registered shares is as follows: Canadian shareholders 8,318, holding a total of 1,301,857 shares; United States shareholders 183, owning a total of 265,701 shares. Of the United

States registered holdings, there are two directors of the company who own 223,000 shares.

Q. What amount?—A. They own 223,000 shares. Out of a total of 265,701. In Great Britain we have 35 shareholders owning 23,037 shares; elsewhere we have 18 shareholders holding 1,008 shares. I gave you the total of share warrants as 1,031,039. Those are not on record; the owners of those shares are not on record in our office. However, prior to the large discount on Canadian funds in New York, we paid our dividends in United States funds to United States shareholders, the warrant holders were requested to deposit their shares with the agency at the Royal Bank in Canada, and on no occasion were coupons cashed to an amount in excess of $20,000 which would indicate that we have approximately 100,000 shares of warrants owned in the United States. Our estimate is that 84 per cent of the issued capital is owned in Canada.

By Mr. Bothwell:

Q. Just one question in connection with those shares. In your statement here, you say your issued stock was 2,622,642 shares, no par value, and you put a value on them of $10,618,117.50. How is that arrived at?—A. That is the amount of cash and property that we received for those shares.

Q. That is the actual cash that was paid into the company since its incorporation?—A. Quite so, cash and property.

Q. What do you mean by "property"?—A. For example, we bought a company, we bought the Winnipeg Oil Company, and we paid for that in stock of our own, not cash.

Q. Do you remember the value of that?—A. That is to say it was paid for in stock.

Q. What was it valued at, because you have included that in this ten million set-up?—A. The stock that we issued, based upon par value, was in excess of the physical assets of the company; in other words, we paid a premium.

Q. What I am trying to get at is this, what amount is included in this $10,600,000 item for the Winnipeg Oil Company?—A. Of the $10,618,117.50, we received cash, $5,993,117.50.

Q. By subscriptions for stock?—A. Yes, and issued for properties $4,625,000.

Q. That is, you had several purchases out of the— —A. Winnipeg Oil Company

Q. Yes.—A. Yes.

By Mr. Donnelly:

Q. Extending back over how many years?—A. Since 1909.

By Mr. Bothwell:

Q. These properties that were taken in where stock was issued, you valued the stock on what basis?—A. In 1909 the par values of the shares exchanged for properties was $100, subsequently $25.

Q. In taking it into your financial set-up, you valued it on the par value of the shares, not on the actual value of the shares.—A. The par value.

Q. That is correct?—A. That is correct.

Q. You run your own line of tankers, do you, from the oil fields?—A. We charter tankers to move our oil from the Gulf to Montreal. We have two of our own ships which move the crude oil from Montreal to Toronto, and last year we chartered two additional ships for that movement.

Q. In bringing your crude oil on your own tankers, what allowance is made for that? Are those tankers run as a separate department of the business, and that department is supposed to pay its own way?—A. That department pays its own way.

Q. How do your payments compare with what you would have to pay other companies for certain—A. For example, take the movement from the Gulf to Montreal, the last rate, the last schedule rate in effect in 1931 was 31 cents per barrel. We charge a rate of 25 cents per barrel. When we set that rate, we set it at what we anticipated would be practically our costs. We do not charter large tank ships in the movement of crude oil upon the basis of so much per barrel, we pay upon the basis of so many shillings per dead weight ton. Our refineries are charged 28 cents per barrel, the last schedule rate was 31 cents, and that was the last rate. The rates throughout the year were somewhat higher.

Q. From the gulf ports to Montreal?—A. Yes.

By Mr. Donnelly:

Q. Do you bring all your crude oil from Toronto to Montreal?—A. Yes, we will this year. Last year we moved a certain quantity, prior to the opening of navigation by tank car from the East Texas field.

Q. You did not bring any from Chicago?—A. No.

By Mr. Bothwell:

Q. You operate service stations throughout Canada?—A. Well, not throughout Canada. We do not operate in the Maritimes; we do not operate in British Columbia. Our business is confined to Quebec, Ontario, Manitoba, Saskatchewan and Alberta.

Q. Can you tell us the number of service stations you have in the provinces in which you operate, and their capacity? That comes under a different branch, and probably it might be better if one of the other witnesses gave it.—A. I would prefer that.

By Mr. Donnelly:

Q. Do you ship your gasoline from the east out to Saskatchewan, or do you buy it?—A. We buy in the west.

Q. You do not ship any from the east?—A. We do not ship any from the east—

Q. How far west do you ship?—A. Fort William.

Q. From there on you buy?—A. Yes.

Q. What company do you buy from?—A. Imperial Oil.

Q. Do you buy at tank car prices, or less than tank car prices?—A. Is that a question to which one of our competitors took exception the other day?

Q. I do not think they have any right to take exception.—A. I think they were sustained.

The CHAIRMAN: They were sustained on the question of price. You were asked if it was less than tank car prices.

By Mr. Donnelly:

Q. I ask you if it was less than tank car prices or at tank car prices?—A. It was less than tank car prices.

By Mr. Bothwell:

Q. Dr. Donnelly is going to ask some questions in connection with refinery costs, and that sort of thing. Are you going to give evidence in connection with that?—A. Mr. Bronsdon will give you this evidence. I would like to make a statement relative to the control of our company. I have given you figures showing that 84 per cent of our company is Canadian controlled. There seems to be the opinion prevailing that the British American Oil Company is controlled by the Imperial Oil Company. I want to deny that most emphatically. It is probably complimentary to our company that we should be called a member of the family of the Imperial Oil, but if we were, it would not be a very harmonious household. As a matter of fact, I think we would bring suit for non-support. Not only are they not supporting us, they are doing their best to take away from us what we have. There is the keenest competition between the two companies, and I would very much appreciate if this committee would instruct its auditors, when they come to our office to examine our books, to pay particular attention to that feature.

By Mr. Ganong:

Q. There is one question I should like to ask. In 1931 you paid an extra bonus on stock. Was that done before you split your stock up?—A. 1930?

Q. Then you split your stock up in 1931?—A. Yes.

Q. Did you continue that bonus in your dividends?—A. No, we did not.

Q. Just for that period?—A. Just one period.

Q. You did not continue the same as you had done the year before?—A. The bonus was only paid in one year.

By Mr. Bothwell:

Q. The bonus was only paid in one year. As a matter of fact, you paid bonuses in different years up to and including 1930.—A. In different years, yes, not in every year. We did not begin the payment of a bonus—you gave me the year yourself, Mr. Bothwell, a few moments ago, we paid eight per cent up to a certain year.

Q. Yes, up to 1926.—A. Yes, after which—

Q. But in addition to that you paid extra payments of two per cent, that is, bonuses of two per cent were made from 1922 to 1926 inclusive.—A. That may be so.

Q. And then, in 1926 you paid a bonus of 50 cents a share; in 1927 you paid a bonus of 50 cents a share; in 1928 a bonus of 20 cents a share, and in 1929 a bonus of 25 cents a share. In 1930 you paid a bonus of 50 cents a share.—A. That is correct— no, not in 1930. We paid about 80 cents per share. I have my record here of the bonus paid in 1930. I have a record of the bonus paid in 1929.

Q. On the no par stock prior to the split?—A. Mr. Bothwell, when you say 1930, the bonus paid in 1930 in January, we will say, was applied to 1929.

Q. Yes?—A. I would have the year separate from yours, and different from yours.

Q. Possibly we can check those figures again. In 1926 I presume the bonus was paid for 1925?—A. Quite so.

Q. That would be fifty cents a share?—A. Yes.

Q. In 1927 the bonus was fifty cents a share; in 1928 the bonus was twenty cents a share; in January 1930— A. Yes.

Q. The 1929 bonus, 25 cents a share on January 2nd, and in 1930 in January, the bonus was 50 cents a share.—A. Yes, in respect to 1929.

By Mr. Ganong:

Q. Nothing in 1931?—A. Nothing in 1930, nothing in 1931 applying to 1930; nothing in 1932 applying to 1931.

By Mr. Bothwell:

Q. There was one other question I should like to ask. You say you do not ship west of Fort William. You have quite a number of wells in western Canada, I believe?—A. Yes.

Q. Have you any property there that is producing?—A. No. We paid more for the Winnipeg Oil Company than we would have paid had it not been for the 25,000 acres of property that was thought at that time to be well located—

Q. Property.—A. You remember back in 1918 and 1919 the enthusiasm in the west, the hope and the expectancy—well, we had it too.

Q. In any event, you have no producing wells in Canada?—A. No.

By Mr. Donnelly:

Q. You say that you do not belong to the Imperial Oil family. Who sets the price in the gasoline trade?—A. The Imperial Oil.

Q. You follow the Imperial Oil?—A. Yes.

Q. And you are governed entirely by what their prices might be?—A. Yes, with exceptions. The Imperial Oil may have a price in a certain area, and a price war may develop there. We do not await their action as to the protection of our gallonage. Those are isolated cases. Generally we follow their prices.

By Mr. Spencer:

Q. That is because they are the biggest company, I suppose?—A. Yes. I think the prices—possibly I should not say this, I do not like to boost a competitor—I think the prices as set by the Imperial Oil are fair to the public, fair to themselves, and fair to their competitors.

Q. Seeing that you are following them, you would naturally say that.—A. I would say they would be fair to themselves and the public; I probably would not admit they are fair to us.

By Mr. Ganong:

Q. I thought in most cases the small fellow set the prices?—A. There was quite a bit of that in 1930.

By Mr. Bothwell:

Q. Possibly you can give us the production, but probably you would rather do that by another witness.—A. Production of what?

Q. Gasoline.—A. Mr. Bronsdon will deal with that.

H. H. Bronsdon, called and sworn.

By the Chairman:

Q. What is your position with the British American Oil Company?—A. Comptroller.

By Mr. Bothwell:

Q. You made out the statement that I asked Mr. Ellsworth for?—A. Yes.

Q. Showing the gross revenue and net profits?—A. Yes.

Q. Would you file that statement so it will go into the records? It might be well for the information of the Committee to read it.—A. In the year 1928, our gross revenue was $4,335,552.99; depreciation $841,308.21; Dominion income tax, $260,000; net earnings $3,234,244.78. In 1929, our gross revenue was $4,391,809.35; depreciation $874,498.73; Dominion income tax was $281,384.88; net earnings $3,235,925.74. In 1930, our gross revenue was $4,111,215.44; depreciation $1,017,848.45; Dominion income tax $237,000; net earnings—before I give you the figures of net earnings debenture stock is deducted, amounting to $208,333.33—net earnings $2,648,033.66.

Q. Was that debenture interest deducted in previous years, or was that an issue that had been made?—A. Debenture issue was made in 1930.

Q. So that was the first payment of debenture interest where interest would have to be deducted?—A. Yes, sir. In 1931, the gross revenue was $4,415,745.26; depreciation $1,138,328.69; Dominion income tax $302,000; debenture interest $244,486.48; net earnings $2,730,930.09.

(Statement printed as an Appendix hereto.)

By Mr. Arthurs:

Q. Can you give the figures in gross revenue, that is the amount less the first item in there for interest on reserves and other things?—A. That figure is the sales less expenses.

Q. Without regard to any other holdings or reserves?

Mr. GANONG: Gross profit.

The WITNESS: That is the gross income from all sources.

Mr. ARTHURS: It is not the gross profit.

Mr. GANONG: It is the gross profit. It is not the gross sales but the gross profit.

The WITNESS: Yes.

By Mr. Bothwell:

Q. In that statement you have given as all the reserves with depreciation off, and it amounts to $196,961.77.—A. Quite right.

Q. Now, can you give us sale of gasoline in the years 1929, 1930, and 1931? —A. Are you asking for gallons or value?

Q. Gallons. Possibly you had better give us both.—A. I have the figure for gallons in 1930 and 1931. In 1930, we sold 90,955,796 gallons; in 1931 we sold 89,270,365 gallons.

Q. So there is a reduction there in 1931 as compared with 1930. Can you tell us what gallonage you sold of other products, that is, petroleum and so on in those two years?—A. The total gallons of products sold in 1930? It was 109,993,030.

Q. Does that include gasoline?—A. That includes gasoline.

By Mr. Ganong:

Q. Please repeat that.—A. 109,993,030. In 1931, the total was 120,295,863 gallons, the total of all products.

By Mr. Bothwell:

Q. In 1930 it was 109,000,000 odd?—A. Yes.

Q. Can you give us the proportion of those amounts that you produce yourselves? What amount of that did you produce yourselves, and what amount did you purchase?—A. The gasoline sales of our production in 1930 were: 44,868,536 gallons.

Q. Out of a total sale of 89,000,000?—A. Yes.

Q. Give us the same figure for 1930?—A. In 1930 our own manufacture of gasoline was 29,072,103 gallons.

By Mr. Donnelly:

Q. About one-third.—A. Thirty-two per cent of the total.

By Mr. Bothwell:

Q. That is, of gasoline. You gave us a figure of 109,000,000 in 1930 of all products, and 120,295,000 on all products. Now, there has been quite a difference in the gasoline and the other products in those two years. Possibly it would be as well to complete the picture. Give us your production of your total gallonage of other products.—A. I cannot give you those figures for 1930.

Q. Well, for 1931.—A. Well I have given the figures of all the products. We produced and sold refined oil to the amount of 2,055,649 gallons, fuel oils, distillate gas, 14,395,287 gallons; coke 4,375,430 gallons; total manufactured products 65,694,902 gallons.

Q. That includes gasoline?—A. Yes.

By Mr. Donnelly:

Q. What was the first figure of gasoline?—A. 44,868,536.

By Mr. Ganong:

Q. Can you give us the gross sales in 1930 and 1931 in dollars and cents?

Mr. ELLSWORTH: Twenty-five millions in 1930, and twenty-one millions in 1931, roughly.

By Mr. Gangong:

Q. You made more profit in 1931 than you did in 1930?

Mr. ELLSWORTH: I would like to explain why that profit was made. In 1930 all of our crude oil was brought by tank car to our refineries in Toronto. In 1931 a very small percentage of the gasoline we distilled was transported in tank cars, the major portion of it was transported in ships at much less expense. I would like to say this also; had we continued in 1931 the operations of our company upon the same basis as of 1930, instead of making more money, we would have earned less. I made a figuration a short time ago just what we would have earned. It would have been 72 cents per share rather than $1.04 cents per share. The difference was therefore through economies in various departments and in transportation.

By Mr. Bothwell:

Q. What were your earnings in 1930?—A. They were $1.01.

Q. What were your earnings in 1931?—A. They were $1.04.

By Mr. Ganong:

Q. After taking off your Dominion income tax?—A. Yes.

Mr. ELLSWORTH: Yes.

By Mr. Bothwell:

Q. After all deductions?—A. After all deductions.

Q. That is net?

Mr. ELLSWORTH: Yes.

Q. You paid in dividends?

Mr. ELLSWORTH: Eighty cents. I would like to be rather emphatic about this. Had we continued our business along the same lines in 1931, as the business was conducted in 1930, we would have made but 72 cents per share.

Q. Have you got your computation worked out in that?

Mr. ELLSWORTH: I can work it out.

Q. Can you furnish it?—A. I can, yes. I have worked it out.

Q. Is that difference all attributable to the carrying of the crude by tank cars?

Mr. ELLSWORTH: I will show you how much is attributable to the crude. In 1930 we paid in transportation cost $4,802,000.

By Mr. Donnelly:

Q. Transportation?—A. Transportation costs.

Q. Four million what?—A. $4,802,803.34. In 1931 we paid $4,392,000 odd.

By Mr. Smoke:

Q. What is the difference?

Mr. ELLSWORTH: The difference is over $500,000, which we saved in transporting crude oil by water.

By Mr. Donnelly:

Q. Did you transport less or more?

Mr. ELLSWORTH: We transported more.

Q. Can you tell us how much more was transported?

Mr. SMOKE: It was more in 1931.

By Mr. Donnelly:

Q. Yes. We want those quantities. Can you tell us how much more, or the quantities each year.

Mr. ELLSWORTH: I was going into that. If you wish I would be glad, as Mr. Bothwell states, to give you a statement showing why the earnings on the same basis of operations in 1930 would be 72 cents rather than $1.04. I would be glad to make that statement and file it.

Mr. BOTHWELL: We might have to ask you a few more questions on the statement after it is filed.

By Mr. Ganong:

Q. The profits are a little larger than that, because you deduct income tax. You say you have so much per share, and the income tax is taken off, but you really make more profit, your profit is proportionately a little larger that that. You deduct a large amount for income tax, which would really make your profit less in 1931 than 1930.

Mr. ELLSWORTH: When we speak of net profit, we speak of what is available for dividends.

Q. The net profit is not really that, because you did not pay dividends until the income tax was taken off.

Mr. ELLSWORTH: It depends upon the method of computation, either before or after taxes.

By Mr. Donnelly:

Q. What size are your refineries, Mr. Bronsden?—A. The Montreal refinery has a capacity of 8,000 barrels of crude per day, and the Toronto refinery 5,000.

Q. They run to capacity?

Mr. ELLSWORTH: As a matter of fact, we can make the capacity of the Montreal refinery 10,000 barrels per day?

Q. Are they run on capacity?—A. No, sir, not at present. The Montreal refinery has only been on operation a short time. It was finished in September, it has run part time since then.

Q. How many men do you employ, about?—A. About 100 men at the Montreal refinery.

Q. And at the Toronto refinery?—A. At the Toronto refinery about 125.

Q. Do you get your crude in both cases from the mid-continent field or from the Oklahama field?—A. From the east Texas field.

Q. Now how do your wages that you pay your men in Montreal compare with the wages they pay in the eastern states?

Mr. ELLSWORTH: I have a statement on that particular matter. The wages at Montreal and Toronto in respect of what we call process men are the same. The common labour is a little cheaper in Montreal than at Toronto. The wages both at Toronto and Montreal are in excess of those paid by refineries in the state of Pennsylvania.

Q. The are in excess?

Mr. ELLSWORTH: Yes.

Q. What about New York?

Mr. ELLSWORTH: I have not that figure. I was able to get only the state of Pennsylvania, the average wage in the state of Pennsylvania.

Q. How much higher?

Mr. ELLSWORTH: Well, for example, stillsmen, the average rate in Pennsylvania is 64 cents per hour for an eight hour day; in Toronto we pay 70 cents per hour for an eight hour day; in Montreal we pay 75 cents per hour for an eight hour day.

By Mr. Bothwell:

Q. How many of those men do you employ?

Mr. ELLSWORTH: Our process men would be practically fifty per cent of our entire pay-roll.

Q. You are giving us stillsmen; take all classes.

Mr. ELLSWORTH: I have not that figure. The reason we pay a higher rate at Montreal is because we sent several men from Toronto where they were obtaining 70 cents per hour, and we had to pay them an additional price per hour to get them to go to another place to live.

Q. How many stillsmen do you employ? My information is that they pay higher wages in the United States than in Canada, except in respect to the common labour, ordinary labour.

By Mr. Spencer:

Q. What is the difference in common labour?

Mr. ELLSWORTH: Ordinary labour in the state of Pennsylvania they pay 45 cents per hour for an eight hour day; in Toronto we pay 55 cents; in Montreal we pay 40 cents. We have only 100 men at Montreal, of which 50 will be process men.

By Mr. Bothwell:

Q. Let me ask you one question. In speaking of these stillsmen, you use that term to cover all your process men?—A. Yes. In the state of Pennsylvania the wages are 49 cents and 50 cents per hour on an eight hour day; in Toronto they are 62 and 65 per hour; in Montreal they are 62 and 65 per hour. Oil treaters in Pennsylvania 61 cents per hour, eight hour day; Toronto 72 and 75 cents per hour for a nine hour day; Montreal 65 cents an hour for a nine hour day. Barrelhousemen, these are men who fill barrels and drums for shipment, in Pennsylvania, 45 cents an hour on an eight hour day, in Toronto 50 cents an hour, nine hour day. In Montreal 42 cents an hour on a nine hour day.

Q. What particular refinery is this you are referring to in Pennsylvania?

Mr. ELLSWORTH: I would rather not give the name. I will give you the letter which gave me the information. I would rather not have it go on the record.

Q. We have had some evidence of some low wage refinery down in the States. I do not know whether that is the one you are quoting for us or not.

The CHAIRMAN: That was in the south.

Mr. DONNELLY: We were told by the Imperial Oil they were practically the same.

Mr. ELLSWORTH: Did that not have reference to Baton Rouge rather than Pennsylvania?

By Mr. Donnelly:

Q. They also referred to the Atlantic seaboard, and they said it was practically the same.

Mr. ELLSWORTH: It would not be the same, no. It could not be the same company in Pennsylvania, because the company from which I obtained this information, the same information would not be accessible to the Imperial Oil.

By Mr. Bothwell:

Q. That was the statement by Mr. Ross. In fact he corrected his statement. He did make the statement one day that the wages in Canada were higher than in the United States, and then he came back again and corrected it, and said the wages were practically the same.

Mr. ELLSWORTH: I think in our industry that is practically true. We have record of many reductions in salaries, in rates of wages in the United States among various refineries. There has been no reduction in the Dominion of Canada as far as my company is concerned, and as far as my knowledge of the Imperial Oil and the McColl Frontenac—

Q. There has been no cutting?

Mr. ELLSWORTH: There has been no cutting.

Q. So that Mr. Ross' statement may be about correct? Geneerally speaking, the wages are about the same.

Mr. ELLSWORTH: I believe that to be correct.

By Mr. Donnelly:

Q. Well now, can you give us the price of crude oil laid down in Montreal for the year 1930?—A. The average price of crude oil?

Q. Month by month.—A. In that year.

Mr. ELLSWORTH: Are you referring there to the average price over the months?

Mr. DONNELLY: Yes. The average price over the months of 1930.

Mr. ELLSWORTH: Laid down?

Mr. DONNELLY: Laid down in Montreal.

The WITNESS: We cannot give you that figure by months.

Mr. ELLSWORTH: We can arrive at it in this way: we have the month by month price at the well. There are various fixed charges which we can add to those figures.

Mr. BOTHWELL: I think it might be well for us to get that.

Mr. DONNELLY: We want the average price month by month for 1930 and 1931.

Mr. ELLSWORTH: I have to make up the figures for 1930 at our office.

By Mr. Donnelly:

Q. You will do that?

Mr. ELLSWORTH: We have it for 1930.

Q. What is it for 1931?

Mr. ELLSWORTH: What I said before was that we have the price at the well. Now, there are certain fixed charges which we have to add to those various prices. We will make it up for you.

Q. Show it in respect to 1930, too.

Mr. ELLSWORTH: 1930 and 1931.

By Mr. Bothwell:

Q. Will you give us a list of those fixed charges that you have there?

Mr. DONNELLY: Take something about a 36 A.P.I. in 1930 and 1931, and give us the price at the well, and carry it right through. Take some day, if you can, a fixed day.

The WITNESS: The price at the well on the day of January 11, 1932. January 11, 1932, 83 cents a barrel for 39·9 gravity crude.

By Mr. Donnelly:

Q. Carry it through.—A. Gathering charge and purchasing commission ten cents.

Mr. BOTHWELL: Separate those.

Mr. ELLSWORTH: Five cents for purchasing, five cents for gathering. The gathering is done by our own subsidiaries. We assess our refineries with one half of the tariff rate in the field. The gathering rate in the field is ten cents. We pay our American subsidiary five cents. Our refinery costs therefore get the benefit of five cents per barrel on our own production. On the production of our subsidiary we allow no gathering charge at all. We allow them purchasing commission of five cents per barrel; our refinery gets the benefit there as well.

Mr. DONNELLY: Yes.

The WITNESS: Pipeage to the gulf, 22·5 cents, one per cent line loss.

Mr. ELLSWORTH: You might divide that. That is 20 cents pipeage with the tariff—divide that, 2½ cents loading, storage and loading at the gulf tariff is 20 cents.

The WITNESS: One per cent line loss ·93 cents.

By Mr. Donnelly:

Q. That is ·93 cents?—A. Inspection charge to gulf shipping points, ·25; exchange 12 per cent, 14·04; from Montreal, using an arbitrary rate as set by this company, which is lower than the tariff rate, lower than freight rate, 25 cents; insurance 20 cents; wharfage at Montreal 10 cents a ton, $1.40; excise tax 1 per cent, ·95; handling charges at Montreal one cent; boat loss in transit from the gulf, ·80; total cost laid down at Montreal on the basis of 83 cents at the well, $1·6015.

By Mr. Bothwell:

Q. That comes to $1.60?—A. Yes.

Mr. ELLSWORTH: That represents the cost of crude on the basis when these figures were made since which time there has been advances.

By Mr. Donnelly:

Q. You could not give us one for 1930 in the same way?

Mr. ELLSWORTH: We were not shipping crude to Montreal in 1930. I can give you the cost laid down in Toronto.

Mr. DONNELLY: All right.

Mr. ELLSWORTH: I would like that there be no misunderstanding as to that figure. It is not related to 1931; it is the cost of the market a few days ago when the figure was made up.

By Mr. Donnelly:

Q. Can you get about the same day in 1930?—A. In 1930 the average cost of crude laid down in Toronto was $2.66 per barrel.

Q. What is that again?—A. $2.66 per barrel.

By Mr. Bothwell:

Q. What was it in 1930 in Montreal?—A. I have not the figures in Montreal. We were not operating a refinery in Montreal in 1930.

By Mr. Donnelly:

Q. Can you give us the average cost in 1931?—A. The average cost at Toronto in 1931 was $1.68 per barrel. In the first four months of 1931 the crude oil which we received at Toronto was moved by tank car, the latter part of the year by tank boat. This figure is the average cost.

Q. For the whole thing?—A. The whole thing.

Q. Have you been able to make it up by boat? If you had been able to move it all by boat, how much would that affect it?—A. The cost at Toronto by boat alone in 1931 was $1.53 per barrel; the cost by tank car was $1.91.

By Mr. Bothwell:

Q. You say that you pay a purchasing commission charge of five cents a gallon?

Mr. ELLSWORTH: Five cents a barrel.

Q. Five cents per barrel. I notice in the United States Tariff Board findings, they say that the purchasing commission averages four cents a barrel. This is from the findings made last year.

Mr. ELLSWORTH: But there would be a gathering charge of ten cents.

Q. They referred to a gathering charge, but the purchasing commission averages four cents per barrel. Then of course, they refer to pipe line charges and so on. They give other items. However, there is a difference btween your purchasing commission and the findings of the Tariff Board on that occasion.

Mr. ELLSWORTH: Yes. In relation to final costs, our gathering charge that we pay is only one-half of what is regular in the area. The gathering charge in the east Texas field is 10 cents per barrel. We only pay our subsidiary 5 cents per barrel; so that our refinery gets the benefit.

By the Chairman:

Q. How do you account for the spread between four and five cents?

Mr. ELLSWORTH: That is an arbitrary figure which we set.

Q. That is what?—A. An arbitrary figure which we set. After all, it is total cost that we have to consider. The total cost in this case would be five cents; five cents purchasing, five cents gathering. If we gathered and sold to any other company we would charge them five cents purchasing, or possibly they would say four cents in view of that report, but we would get ten cents for gathering.

By Mr. Bothwell:

Q. You must buy a lot of crude that you do not produce yourself?

Mr. ELLSWORTH: We do.

Q. What is the purchasing commission there?

Mr. ELLSWORTH: The purchasing commission is five cents. On what we produce ourselves, there is no purchasing commission.

Q. Of course, you charge it up in arriving at your cost; that is, the profit to that particular subsidiary, but you do pay five cents purchasing commission?—A. Yes.

Q. Why do you pay five cents purchasing commission when the American refineries only pay four? That is what I am trying to get at.

Mr. ELLSWORTH: We have referred to the total charges for gathering and purchasing, which to our own company is ten cents, and in the case of any other company it would be 14 or 14½, or possibly 15. We give our refinery costs the benefit of that 4 or 5 cents per barrel.

Q. According to the findings of the Tariff Board, the laid down cost of crude oil at the Atlantic seaboard is less than the figure we have gotten from the

Imperial Oil or from you. I am trying to find out where the difference arose. I am asking why you paid five cents purchasing commission on crude that you purchase from other companies when in the United States the United States refineries pay only four cents?

Mr. ELLSWORTH: We pay it to our own company. We have a gathering company, known as the Toronto Pipe Line company. They gather from the producers at the well. They extend their lines to the well and take their oil from the stock tanks in the field. This is paid, therefore, to our own subsidiary, five cents.

Q. So that whether you buy from your own company or any other company, so far as this particular company is concerned, the British American Oil Company pays five cents to the Toronto Pipe Line Company.

Mr. ELLSWORTH: Quite so; the figure Mr. Bronsdon has given on the cost. You say the Imperial Oil Company is higher than the figure stated in the record that you are reading. The reason is that I think the Imperial Oil have found their cost of 39 gravity crude, is worth 6 cents per barrel more than 36 gravity crude. In other words there is a range of 2 cents per degree. To make a comparison, Mr. Bronsdon would have to reduce his 83 cents to 77 cents.

By Mr. Donnelly:

Q. What percentage of gasoline do you obtain from crude?—A. I have our yields at the Toronto refinery for the year 1931—gasoline 65·01 per cent.

Q. In 1931 65·01 per cent?—A. Yes, sir.

Q. What would it be for 1930?

Mr. ELLSWORTH: It would be in the neighbourhood of 60·62 per cent, because we were not running the same quality of crude.

By Mr. Donnelly:

Q. It was 60·62?

Mr. ELLSWORTH: Yes.

Q. Was it about the same at Montreal?—A. Our yield of gasoline at Montreal was 60·79 per cent.

Q. In 1931 60·79 per cent?—A. Quite right.

Q. Was it about the same in 1930?

Mr. ELLSWORTH: We had no refinery there then.

Q. Can you give me the reason why from the same crude you got 65 per cent in Toronto and 60 per cent in Montreal?

Mr. ELLSWORTH: It is a matter of process.

Q. You do not have the sale for your fuel oil in Toronto that you have in Montreal?

Mr. ELLSWORTH: We make a fuel oil in Toronto, but we make a different quality. We make what we call a domestic fuel. In Montreal we produce bunker sea oil, which is a heavier oil.

By Mr. McGibbon:

Q. Do you import much gasoline?

Mr. ELLSWORTH: Have you the importations for the year 1931, Mr. Bronsdon?

The WITNESS: In 1931 we imported about 4,000,000 gallons of absorption gasoline.

By Mr. Donnelly:

Q. What is that, casing-head gasoline?—A. Casing-head.

Q. No other gasoline?—A. No, sir.

Q. Do you pay any duty on casing-head gasoline?

Mr. ELLSWORTH: Excise taxes only.

Q. You pay no duty, then, on any gasoline you bring in?—A. No; we import it for manufacturing purposes.

By Mr. McGibbon:

Q. For mixing with the other gasoline?—A. For blending.
Q. What did it cost you, about?—A. I beg your pardon?
Q. What would be the cost of the imported gasoline?—A. I have not the exact figure.
Q. Approximately, what would it be?—A. About ten cents a gallon.
Q. What would you sell it for?—A. That is lost in the manufacturing process.
Q. I know, but you sell it; it is not lost; it is mixed.—A. It is like any other ingredients that enter into the cost of gasoline or other products.
Q. I know; but you are evading the point. You are importing it at about 10 cents, and you are selling it for about 20.

Mr. ELLSWORTH: Well, our refinery net-back in February, this year, 1932, was 10·87 cents.

Q. I beg your pardon?

Mr. ELLSWORTH: Our refinery net-back—

By Mr. Donnelly:

Q: That importation that you made of 4,000,000 gallons was in 1930, or 1931?

Mr. ELLSWORTH: 1931.

By Mr. McGibbon:

Q. My point is you buy it for about ten cents a gallon, and mix it with other gas, and it goes out as domestic gas, and you do not pay anything on it but the excise tax.

Mr. ELLSWORTH: But it is used in the net-back at our refinery. I am quoting from our refinery, and the net-back was 10·87 cents.

Q. What is the spread between your selling price and your cost price on your imported gasoline?—A. Well, the average value of sales for 1931 is 16·54 cents a gallon.
Q. You have made about 7 cents a gallon on it?—A. No, sir.

Mr. ELLSWORTH: No. The profit is the difference between the cost and the selling price—

Q. About 7 cents a gallon?—A. You have to add to that your freight to lay it down at the point of consumption.
Q. Any extra cost there to freight it to Montreal?—A. Yes, and it adds up to ·87 cents.
Q. Cannot you import it at Montreal as well as Toronto?

Mr. ELLSWORTH: We do, but we cannot import it to other distributing points; it must be imported to a refining point.

By Mr. Donnelly:

Q. Is not this a high percentage of casing-head gas? You manufacture 44,000,000 gallons, and you mix 4,000,000 with it. Is not that a high percentage of mixture as compared with other companies?

Mr. ELLSWORTH: May I answer that? We mix with that purchase, gasoline as well to give it more volatility.

Q. In the west?—A. Yes.

Q. How do you get it out there?—A. It is shipped from the mid-continent field by tank car.

By Mr. Donnelly:

Q. Now, can you tell us what percentage of your cost of the production of gasoline is attributabe to crude?—A. I do not understand that question.

Q. You manufacture gasoline; what percentage of the cost of manufacturing gasoline do you attribute to the crude oil, the price of crude oil laid down in your refinery?—A. In arriving at our costs, we use a method which is used by approximately 80 per cent of the oil companies in North America. It is called the "sales realization method." And the cost of a barrel of crude plus the expenses of refining, distilling and refining, is spread over your sales realization.

Q. I find here that the domestic refinery using probably domestic fuel; that is, in the United States, the cost of crude petroleum during 1929 and 1930 represented 63 per cent of the total cost of the finished product. I want to know what your percentage is?—A. I have not the exact figure, but it works out to about 81½ per cent.

Q. Eighty-one and a half per cent. That is, the cost of crude is about 81½ per cent?

Mr. Ellsworth: Crude and other materials.

Q. That goes into the cost of gasoline?—A. Yes.

Q. Now, what represents your cost of refining gasoline?—A. In the year 1931, at the Toronto refinery, our cost of refining was 1·73 cents a gallon.

By Mr. Bothwell:

Q. What was it at Montreal?—A. We have not been operating long enough at Montreal to arrive at a cost figure.

By Mr. Donnelly:

Q. Now, can you tell the committee the price of gasoline in tank cars and tank wagons and service stations in 1930 and 1931.

By Mr. Bothwell:

Q. Just before you get that, I should like to ask a question. You say the cost of refining in Toronto was 1·73 cents a gallon?—A. Yes.

Q. Of gasoline?—A. The cost of refining a barrel of crude oil.

Q. The cost of refining a barrel of crude oil was $1.73?—A. It was 1·73 cents per gallon.

Q. It was 1·73 cents per gallon?—A. The cost of refining, the cost of distilling and refining a gallon of crude oil, put it that way.

Q. Or a gallon of gasoline?—A. Crude oil.

Q. There must be something wrong there.

Mr. Donnelly: Surely you are wrong there.

By Mr. Bothwell:

Q. The cost of refining a gallon of crude oil?—A. If you take—

Q. You will only get a fraction of gasoline. You only get 65 per cent. We have the other companies tell us about 1·5 per gallon of gasoline,— —A. On a barrel basis, our refining cost is 60 cents per barrel, 60·39 cents the actual figure.

Q. For a barrel of crude oil?—A. Yes, 60·39 cents.

Q. How many gallons do you get out of it?—A. Somewhere about two-thirds, around 22 gallons of gasoline.

Q. What I want you to figure out is the cost per gallon of gasoline refined?—A. Well, I have the realization on a gallon of gasoline, and deducting all expenses, including overhead, administration, we show a net profit on our own manufacture of 1·88 cents per gallon.

By Mr. Donnelly:

Q. What is that again?—A. 1·88 cents per gallon.

By Mr. Bothwell:

Q. You say that is your net profit, 1·88 cents per gallon?—A. Yes.

Q. But you have not figured what your actual cost of refining it is?—A. The actual cost of refining is 1·73 cents per gallon.

Q. That is 1·73 cents on gasoline or on crude.—A. That is on crude.

Mr. ELLSWORTH: Divided by 65, and it will give you the cost of gasoline.

By Mr. McGibbon:

Q. What percentage of the cost of refining do you put on your by-products like fuel oil?

Mr. ELLSWORTH: We have not any by-products. In the early days of the coal tar industry, for example, they distilled coal for the purpose of making gas, and they got coal tar, and in those early days there were only two or three derivatives from coal tar, and consequently it was called by-products. To-day coal tar gives many many thousands of derivatives, and it is more valuable—

Q. You are just quibbling. You have other products beside gasoline, no matter what you call them.

Mr. ELLSWORTH: Very well. Take fuel oil, which prior to the cracking process becoming—prior to there being the use for it, fuel oil was considered a by-product. To-day you would consider fuel oil a primary product, and gasoline a by-product.

Q. That is not answering the question. You take a gallon of crude oil and you get many other things beside gasoline from it.

Mr. ELLSWORTH: Yes.

Q. What percentage of the cost of distilling do you apply to other products?

Mr. ELLSWORTH: It is worked back on the basis of realization.

Q. What is it?

Mr. ELLSWORTH: You can give that, Mr. Bronsdon.

The WITNESS: You are asking for the cost, the manufacturing cost of a gallon of gasoline.

Mr. MCGIBBON: Yes, distributed over the different products.

The WITNESS: We quoted the figure before, 1·73 cents per gallon of gasoline.

Mr. BOTHWELL: That works out to 1·1245 cents per gallon, working it out on the 65 per cent gasoline.

By Mr. McGibbon:

Q. What I am trying to get at is this; you take a gallon of crude oil and you distil it, and you put the cost of distilling it on the gas.—A. No, sir.

Q. What proportion?—A. The proportion that the realization that your gasoline bears to the realization of all the products obtained from a barrel of crude, which is 81½ per cent.

Q. Eighty-one-and-a-half per cent applies to the gas, leaving 18½ cents to the rest. What would the other products be worth?—A. What would they be worth? They vary.

Q. Of course.—A. It depends on the market, on the quantity you have on hand to dispose of.

Q. Approximately, can you tell me?—A. What they are worth? No, not off-hand, I cannot.

Mr. ELLSWORTH: I think the answer is, is it not, the price varies with the changes in the cost of material?

Q. Of course it does, but it does not change that you should not be able to give me approximately the cost. You have your average for the last year.

Mr. ELLSWORTH: The statement of realization is the answer. It gives the percentage, and so forth.

Q. I am asking for the value.

Mr. ELLSWORTH: That is our only method of ascertaining.

Q. Well then, taking the whole at one dollar a barrel, it would be worth 18 cents. Is that right? I am not asking for information.

Mr. ELLSWORTH: Assuming your figure of 85 is correct.

The WITNESS: Yes, sir.

By Mr. Bothwell:

Q. You sell gasoline from your refineries in Montreal and Toronto to other distributors.—A. I prefer that question be answered by the general sales manager; he has more knowledge of that subject than I have.

Q. I guess we had better follow on with the distribution end of it. You are looking after the production end of it only.—A. I deal with the costs.

By Mr. Donnelly:

Q. Do you manufacture lubricating oil?—A. No.

Q. You buy that?—A. Yes, sir.

Q. Buy from the Imperial?

Mr. ELLSWORTH: Very little.

By Mr. Bothwell:

Q. We were speaking of by-products. You will see what we term by-products you call fuel oil and gas oil and kerosene and coke—

Mr. ELLSWORTH: Yes.

Q. Under this sales realization method, what proportion of your costs and your profit on gasoline—do I understand it correctly when I state this, that you take the ultimate sales of all of your products and figure it back into your refinery to arrive at what proportion of the amount realized would be allocated to each particular product?—A. That is exactly correct.

Q. And then you arrive at your cost of production in relation to the sales of those various products and the proportion of those various products you get from your crude?—A. That is correct.

Q. Is there any table for working that out that is adopted by the different oil companies? You all seem to have arrived at the same method of computing. I would like to know if there is any table followed.

Mr. ELLSWORTH: The Federal Trade Commission record of 1921 gives it very fully, does it not Mr. Bronsdon?

The WITNESS: Yes.

Q. Of the United States?

Mr. ELLSWORTH: Yes; they were up against this same proposition.

Q. Does that system that has been adopted by the Federal Trade Commission give you a certain percentage that you should allow to a particular commodity, or do you have to work it out?—A. Yes.

Q. You work it out on your realization, on your selling price. You work it out yourselves?—A. Yes.

By Mr. McGibbon:

Q. I suppose it does not vary much from year to year, does it?—A. Oh, yes, greatly.

Q. Is that on account of the different grades of oil?—A. On account of the changes in the raw material.

By Mr. Bothwell:

Q. I just wanted to ask you another question in regard to your prices. The prices are fixed by the Imperial Oil, and then you follow the Imperial Oil prices?—A. Yes.

Q. According to the evidence, they manufacture some 712 products, so I presume they manufacture all of the products that the British American Oil Company manufactures.—A. And a great many more.

Q. You have to meet their competition in all of those products that you sell?—A. Yes.

Q. And their prices in all other products as well as gasoline, govern?—A. Yes.

Q. Would not there be a considerable difference in the cost of producing any one of those commodities in different refineries?—A. Well, there would be. I have no doubt that this inquiry will show that the cost of the Imperial Oil, the McColl-Frontenac and ourselves may be very different. We may be high in one case, and they in another. Their marketing expenses may be higher than ours; their manufacturing costs may be lower.

By Mr. Hanson:

Q. Is that an opinion or a statement of fact?—A. That is an opinion. I cannot make a statement of fact.

By Mr. Bothwell:

Q. So that it should be possible, if in your refinery, you are allocating a greater cost of production to any one commodity than that particular commodity should bear in following this— —A. I do not think that is correct, because the costs are based on realization. Now, if we are selling gasoline, the realization is on gasoline; if we are selling some of the—one of the other 712 products that the Imperial Oil speak of, realization is on that particular product. In other words, if you take gasoline out of a barrel of crude, you do not get the other product—

Q. How does your company make a profit of 1·88 cents per gallon of gasoline when the Imperial Oil said that they only made 1·01 cents?

Mr. ELLSWORTH: Our record is in respect to 1931; theirs is in respect to 1930. We have not the figuration for 1930. Yesterday we had a conference with your auditors. They asked us to give the figuration for 1930. It is quite impossible. Our records were not kept in such a manner that will permit that. We told them to come to our office and ascertain that.

Q. Then, at the Toronto refinery, you cannot give that.

Mr. ELLSWORTH: At either refinery, no, not for 1930.

By Mr. Donnelly:

Q. Do you manufacture any lubricating oils at all?

Mr. Ellsworth: No.

Q. You buy all those?

Mr. Ellsworth: We buy all we use.

Q. Well now, you say you follow the Imperial Oil in their prices, and as I understood you, you say the cost of production of gas is about 81.5 per cent, and that is attributed to crude; is that not right?—A. We say 81.5 per cent of the cost of your crude applies in our figures to the cost of gasoline.

Q. You say 81.5 of the cost of your crude. Is there waste?—A. Losses.

Q. What are the losses?—A. I can give you the exact figure: 7.38 per cent was our loss for the year 1931 at the Toronto refinery.

Q. I understood you to say this, 81.5 to be the cost of gas. I thought that was the answer to the question as I put it, which I asked you a while ago.

Mr. Bothwell: The way I understood the previous answer was this, that the crude oil constituted 81.5 per cent of the cost of gasoline.

Mr. McGibbon: Just the reverse.

Mr. Donnelly: Just the reverse.

The Witness: There is really no sense to that question.

By Mr. Bothwell:

Q. That is the way I understood your answer to Dr. Donnelly.—A. You do not split up gasoline into crude oil. It is just the reverse. So that in splitting up a gallon of crude oil, 81½ per cent of the cost of your crude oil is applicable to gasoline, and that figure is arrived at on the basis of the realization of sales. That is to say, that the realization of your sales of gasoline are 81½ per cent of the total.

By Mr. McGibbon:

Q. What I don't understand is this. How do you get the fixed valuation like that, when you say you manufacture gasoline and you do not get other products? It must vary, does it not—A. Will you repeat that question?

Q. As I understood you a while ago, you said if you take the maximum quantity of gasoline out of the oil, you do not get the other products?—A. Yes, I will explain that.

Q. Then, your costs must vary.—A. I will explain it in this way. If you split a gallon of crude oil, we will say, into one commodity—naturally if it were possible to get 712 different commodities, that the Imperial Oil speak of, you would get a certain realization on each one of those commodities, and that realization, the percentage that that realization bears to the total, governs the cost.

Q. That is what you make constantly from a particular number of products. Do you need the same number—you did not make that up?—A. No, that is not necessary. Out of one gallon of crude I may make certain products. Now then, I get the cost of those products, because you have the cost of the crude oil. Out of another gallon of crude oil, I may get a different range of products, and I have the most of those products.

Q. This is my question; how do you set up a fixed rate of 81.5 per cent for your gas? It must vary?—A. Because we sold so many million gallons of gasoline in the year, for which we received so much money; that money bears to the total that per cent—

By Mr. Bothwell:

Q. Here is another question. If I understand you aright, it means this: out of your crude oil you get 65 per cent of gasoline?—A. Yes.

Q. Then you charge 81.5 per cent of the cost of your whole operations to gasoline? That is, out of the crude oil you get 65 per cent gasoline, but you charge 81.5 per cent of the cost of your crude to gasoline.—A. One percentage has no relation to the other.

By Mr. Donnelly:

Q. If you got 65 per cent of gasoline, you ought to charge 65 per cent of the cost of crude to gas, not 81 per cent.

Mr. Bothwell: That is the way it appears to a layman in this business anyway.

By Mr. McGibbon:

Q. That would depend upon the realization you got from the gasoline, and what you got from the other products?—A. Yes.

By Mr. Hanson:

Q. That element is based, as Dr. McGibbon just said, on the realization, not the actual cost?—A. Yes.

Q. Well it goes to show you get a disproportionately large price for gasoline in relation to your other products.—A. No.

Q. That is what it means to us.

Mr. Bothwell: That is exactly what it means to me.

Mr. Donnelly: And to me.

Mr. Hanson: We will give him a chance of course, to explain that, if it is not correct.

The Witness: I can explain it probably better to your auditors than I can to this gathering.

By Mr. Hanson:

Q. What is that?—A. I can explain it to your auditors probably, better.

By Mr. Bothwell:

Q. Possibly the auditors would not be able to explain it to us. We may just as well get at it now.

The Witness: We will take a hypothetical case, small gallonage. I have an example worked out where the yield of gasoline is 60 per cent, and the refinery f.o.b. realization per gallon is 12 cents per gallon. Now, that gasoline was sold; that is, 10,000 gallons of gasoline were sold at an average of 16 cents a gallon, and it netted back to the refinery, $1,200 or 12 cents per gallon. That $1,200 in relation to the total sales of this example was 81.63 per cent. Now, in this example, I ran 50,000 gallons of crude oil at a cost of five cents per gallon, which is $2,500 with the refinery expenses, $1,000, making a total of $3,500, or seven cents per gallon. Now, then, on the basis,—

By Mr. Bothwell:

Q. Where did you get your cost there of $1,000?—A. I am just using a hypothetical case as an example to illustrate to you this method of cost finding. Now, based on the Federal Trade Commission, the cost finding, I find, with a 60 per cent yield of gasoline and an f.o.b. refinery cost of 12 cents, the cost of gasoline at the refinery is 10.71 cents a gallon; the cost of refined oil, .982, fuel oil, .89. Now, I inventory the cost to gallons that are not sold. In other words, I eliminate the gallons that are not sold from the picture, and that leaves me with a cost of $1,312.40 as representing the cost of the goods sold. Now, I apply that 81.63 per cent of that figure against the cost of gasoline, and I deduct that from the net realization at the refinery of 12 cents per gallon, and it gives me a cost per gallon of 10.71, exactly the same figures.

By Mr. McGibbon:

Q. You did give us the reason why you applied 81.5. You say that you were following the Federal Trade Commission method of cost finding.—A. That is a fixed percentage.

By Mr. Hanson:

Q. That is, your realization figure is not on gasoline. That is your realization figure is it not?—A. The realization figure on the refinery was 12 cents.

Q. No, the 81 per cent.—A. That is the percentage of realization.

Q. Fixed on what?—A. I take 81.63 per cent of my realization of 12 cents, and it gives me the cost of gasoline at 10.71, just to prove that my other figure is right, I take 60 per cent of the yield, and working it back on the same method, I get a cost of 10.71. In other words, I have proved by both methods of figuration that 60 per cent yield of gasoline, is equivalent to 81.63 per cent of realization sales.

The CHAIRMAN: Gentlemen, it is one o'clock. Shall we sit this afternoon?

Mr. BOTHWELL: It is quite agreeable to me.

Mr. DONNELLY: It is agreeable to me.

The WITNESS: We are at your disposal.

The CHAIRMAN: Then we shall sit this afternoon at four o'clock.

Committee adjourned.

AFTERNOON SESSION

The Committee resumed at 4 o'clock.

Mr. BRANDSON, recalled:

The CHAIRMAN: Now, Dr. Donnelly, will you continue your questioning, or will Mr. Bothwell?

By Mr. Bothwell:

Q. You were explaining how they arrive at the cost. You had not finished that, Mr. Bransdon?—A. I think I had, Mr. Bothwell.

Q. We had not understood clearly why you charged 81½ per cent of the cost of crude to gasoline. You gave us a hypothetical case of the way it is figured back to the refinery from your realization, but it did not explain, to me in any event, how that 81½ per cent is figured.—A. I will take the exact figures for 1931. Of our own products we sold a total of $8,764,605.90 worth of commodities. Included in that figure we have $7,420,173.45 the value of gasoline sales. From that we deduct:

Freight to destination	$ 823,225 50
Taxes; municipal and provincial, including auto and truck licences	95,953 86
Sales tax	143,154 73
Marketing expenses, including depreciation on distributing equipment	1,009,891 05

These items, that is, freight, taxes, and manufacturing expense, total $2,070,-225.14. Deduct that figure from the value of sales of gasoline, the realization at the refinery—$5,349,948.31—

Q. You said, including manufacturing?—A. Including marketing expense. I did not intend to say manufacturing. That figure of $5,349,948.31 is 83.10 per cent of the total net realization of the products sold, which we manufacture.

Now then the next step is, we find the total value of the crude oil and other materials consumed in those sales, and we take 83·10 per cent of that total value. That gives us the crude and other materials consumed applicable to gasoline, which totals $2,894,164.40.

Now, using the same method, we apportion the refinery manufacturing expense, refinery depreciation, refinery taxes. That gives us a total figure of $3,875,952.32 applicable to gasoline. We also apportion to the sale of gasoline a proportion of general and administration expense. The proportion applicable to gasoline is taken on the ratio that the sales value of the gasoline bears to the total value of all sales. That amounts to $412,566.75. We then add, using the same method, a proportion of interest, bank interest and exchange, dominion income tax and debenture interest. The sum of those items leaves the net balance of $845,968.15 or 1·88 cents per gallon.

Expressing it on a gollon basis, our gasoline realized 16·54 cents a gallon. All our expenses in connection with the sale of that gasoline to the public equal 14·66 cents per gallon, that includes all expenses; that leaves a net profit of 1·88 cents per gallon.

Q. Now you have to use in the production of gasoline charging stock, this casing head gasoline you speak of, use a certain amount of that?—A. We would treat that as a secondary operation in the refinery.

Q. How did the cost of that in 1931 compare with 1930 and previous years?

Mr. Ellsworth: It was lower in 1931.

Q. Can you tell us how much lower?—A. I have not the figures.

Q. Is that what you call charging stock?—A. No, casing head gasoline.

Q. Well, what is your charging stock.

The Witness: The charging stock is the stock that comes from the first run in the refinery and it is put through the cracking process.

Q. Is there any product you have to use in addition to the crude oil in manufacturing gasoline?—A. Yes, we use a number of materials.

Q. How did the prices of those compare in 1931 with 1930, that is materials you had to buy?

Mr. Ellsworth: Caustic soda, sulphuric acid, etc. I think it is fair to assume that all prices in 1931 were somewhat lower than in 1930.

The Witness: I have no figures for 1930.

Q. Well, the general trend has been downward the last two or three years.

Mr. Ellsworth: Yes, quite so.

Q. Now gasoline going out of your refinery, either in Montreal or Toronto, you charge that up at your refinery at a certain price. That is, if you are shipping out tank-car lots that leaves your refinery at a certain charge figure. —A. We carry our books in gallons, we control the movement of stocks in gallons. We treat the company as a whole.

Q. Well, you sell to independent dealers, don't you in tank car lots?—A. Yes, that is correct.

Mr. Binns: If you do not mind my interrupting, very very little is sold to tank-car buyers. In fact in 1930 we only sold 6.98 per cent in tank cars; in 1931 12.08 per cent of our entire gallonage.

Q. What I want to know from this witness is, whether in your operations you, at any time, have a fixed price for your gasoline at the refinery.

The Witness: No sir.

By Dr. Donnelly:

Q. You have a day-to-day tank-car price?—A. Our marketing department handle all sales. whether tank-car sales or tank-wagon sales.

Q. But you must have a price from day to day at which you sell it.—A. I think Mr. Binns will be glad to give you all the tank-car and tank-wagon prices.

Q. You have nothing to do with the distribution end yourself?—A. No, sir.

Dr. DONNELLY: Mr. Chairman, I would like to ask Mr. Bransdon to fill out a chart for us the same as we had from the others, showing how you allocate your costs, your gasoline, kerosene, amount of charging stock, etc., how you allocate it to the different products. If you will do that for the two years 1930-31, take one of your plants, like the Toronto plant.

The WITNESS: Where is this taken from?

Dr. DONNELLY: This is taken from the report. You can give the headings, Refined Products, take the different ones, the number of gallons made from the charging stock, from blending stock, and the average unit value, f.o.b. plant in cents (showing witness page 198 of Report No. 30, second series, U.S. Tariff Commission.)

Mr. ELLSWORTH: May I ask Dr. Donnelly a question? Have you requested your auditors to get this particular information, or is it in addition?

Dr. DONNELLY: We have asked them in a way to get this, we might be able from what he gets to fill it out, I do not know if we will or not.

Mr. ELLSWORTH: My question is, is it an addition to what the auditors have been asked to get.

Dr. DONNELLY: We have asked for no definite information in regard to that sort of thing. Generally, we asked him to get that sort of thing, but I do not know whether we will get it in that form. I would like some information of that kind.

Mr. ELLSWORTH: The other companies will supply similar information for comparison?

Dr. DONNELLY: Surely.

By Dr. Donnelly:

Q. Now, I understand you to say you get about twenty-two gallons of gasoline from a barrel of crude oil?

The WITNESS: 65 per cent of thirty-five gallons would be the figure, 22.75 gallons.

Q. I understood you to say also that you charge 81.5 per cent of the cost of the crude up to the gas. Is that correct?—A. 83.10. I am speaking now of the 1931 figures.

Mr. BOTHWELL: You changed that from this morning.

Dr. DONNELLY: You gave 81.5 this morning—?—A. That was in connection with this hypothetical case. 81.63.

Mr. BOTHWELL: No, you gave us this morning 81.5 per cent.—A. Well, I will correct that; 83.1.

By Dr. Donnelly:

Q. I figured from the 81.5. From that you also said, if I remember rightly, that a barrel of crude cost you something like $2.66 in the year 1930.—A. That is correct.

Q. At Toronto. So that the amount charged against 22 gallons of gas for crude would be something like $2.15, that is based on the 81.5. It will be more than that using the 83.1, but taking 81. per cent of the cost of your crude, you will have charged against this 22 gallons $2.15 or $2.20 for the price of the crude? It would be practically $2.19 wouldn't it against those 22 gallons, making almost 10 cents per gallon that you charge up of the price of the crude to the gasoline.—A. Those figures appear to be approximately correct.

Q. Now, if we come to the year 1931.—A. I would like to interject here that the $2.66 was the cost of the crude oil, it does not include any manufacturing expense.

Q. I know that, I am just taking the crude itself. Now take the next year, 1931, you say that the price of crude in 1931 was $1.68 per barrel in Toronto. Then at the 81 per cent that would bring about $1.35 charged up against 22 gallons. For 83. per cent would be a little more, three or four cents more.

Mr. BOTHWELL: $1.39.

By Dr. Donnelly:

Q. In that case you have $1.39 charged up to the 22 gallons, which makes it not quite 6, 1/3 cents. In one case, in 1930, you have nearly ten cents charged against the gas for the cost of crude oil, in the other case 6, 1/3 cents, or a difference of about 3 and 2/3 cents. Is not that correct?—A. It looks approximately correct.

Q. In the face of that, we would expect then, on account of the price of crude coming down so much, that the price of gasoline in 1931 would be down somewhere about that amount. Now we have here the schedule of prices which you people say you follow with the Imperial Oil. I take the first of September in Montreal, we find on the first of September 1930 in tank-car lots, you were charging 12.6 cents, but the next year, when we would expect it to be about three cents lower, we see you charging about 14.5 cents. How do you account for that difference? Instead of paying about 9 cents, as we would expect, we are paying 14.5?—A. I do not think you can take the prime costs of one year against another and figure it in that way. For instance there is the question of the quality of the gas enters into it. There is the question of the grade of gas and the octane rating. There is also the manufacturing expenses.

Q. But you told us that your manufacturing expenses in 1931 have been less than in 1930.—A. The proportion of manufacturing expenses may be, but when you take six cents and compare that on a tank-car price of twelve cents that is not correct.

Q. I beg your pardon, I did not follow that?—A. When you take 6.45, the figure you had there, and compare that with a twelve-cent tank car price you have other factors of cost in between those two figures.

Q. I know there are other costs. But we were told here that the price of your gasoline is regulated by Imperial Oil and McColl-Frontenac, and their price goes up and down just according to the price of crude.—A. Are we dealing with costs or selling prices?

Q. We are trying to get at costs to know the basis on which you sell.—A. Well, gentlemen, I understand I am on the stand in regard to costs. I am not competent to answer the question in regard to selling prices.

Q. But you can see the position we are in. We are in this position, we want to know the selling price. Now we have the selling price and we have your costs. You are saying it is regulated practically by the price of crude. In the year 1930, as we have said, the price of crude that you allocate per gallon is something like ten cents and a fraction; in 1931 it is six cents and a fraction, making a difference of three cents and a fraction. So we would expect the price of gasoline to come down that three cents. Instead of that it has gone up two cents.—A. I can only quote from the figures I have given for 1931. Our average sales realization, as I said before, was 16.54 cents per gallon. The cost of the crude that entered into that plus the marketing expenses totalled 14.66 cents. I am not in a position, you take me at a disadvantage in asking me to compare 1931 figures with 1930 when I have not any details of the 1931 before me.

By Mr. Bothwell:

Q. Can we put it this way then, in a general way; you have made this statement, that the cost of materials that enter into the manufacture of gasolene has been less in 1931 than in 1930?—A. What I said was that the cost per barrel of crude was less in 1931 than in 1930. I am not prepared to make the statement that the cost of manufacture in gasolene was less, because I have not the figures.

Q. I did not ask that, I asked if the cost of the materials that went into the manufacture of gasolene was less in 1931 than in 1930.—A. You see that is a difficult question to answer, Mr. Bothwell. In the first place you have the factor of your yield, that enters into these figures. There has been a good deal of stress laid on the octane rating by the oil industry in the last couple of years. In one batch it will be low, there is not the natural element in the crude, therefore you have got to ethylize that to bring it up to the standard. All these factors enter into your costs, so that it would not be fair for me to make any statement before this committee except statements of fact.

Mr. Binns: Could I interpect something here? In 1930 I do not think we sold two tank-cars of gasolene in the Island of Montreal. We were purchasing gasolene, we could not afford to sell it in Montreal.

By Mr. Bothwell:

Q. I am going to ask the witness if that agrees with this. Mr. Ross was asked: "Will you tell me about the price of gasolene in Canada, if at the present time you regulate the price of gasolene at all having regard to the actual cost of American gasolene laid down in Canada?—A. No that is not the yard stick, the yard stick is the price of American crude.

Again he says, "The yard stick is the price of American crude." In another place in his evidence there is a reference to that, that the price goes up and down according to the cost of crude.

Q. You do not fix the price, you follow the Imperial Oil?—A. In most cases.

Q. And do you know whether that is a correct statement as far as Imperial Oil is concerned?

Mr. Ellsworth: I do not think we should be asked whether or not a statement made by Imperial Oil is right.

Mr. Bothwell: No, but if you have dealt in this matter with Imperial Oil and have satisfied yourselves that that is the practice. If you have not the witness cannot answer.

Mr. Ellsworth: We will say this, that there have been changes in the price of crude where the market has not followed. For example the price of crude last week advanced 15 cents in the mid-continent field, and Texas, where both the Imperial, McColl and ourselves obtain most of our crude. The price of gasolene has not followed. Whether it will go up I do not know but up to the present time it has not followed.

By Mr. Bothwell:

Q. Well possibly we can leave that phase of the matter at this: Dr. Donnelly has brought to your attention the fact that the figures you have given tend to show that the cost of your crude as it goes into the gasolene has been reduced something over 3 cents a gallon between 1930 and 1931, yet the tank-car price has gone up from $12.60 to $14.50.

The WITNESS: I do not know whether it is proper for me to make a statement in that respect, but our general sales manager, Mr. Binns, stated that we only sold a small portion of our goods in tank-cars. Take the tank-wagon prices and you will find they have dropped in proportion to those figures.

Q. But with the tank-wagon there is the cost of distribution. We are trying to find whether this additional cost is attributable to distribution or to something in your refinery.

Dr. DONNELLY: You can see, the only competition you people have is gasolene brought in tank-car lots. The Americans do not come over here with a tank-wagon and sell gasolene, except in very few instances. The competition you are going to have is tank-cars. If you put up the price on tank-cars, why did you put it up.

Mr. ELLSWORTH: Doctor, we did not put up the price in tank-cars, and we do not seek tank-car business. It was business we felt would involve us in loss.

Dr. DONNELLY: Well it has been put up by someone. The present price we have is 13.50 as compared with 12.50 and 12.60 in September 1930. On December 1, 1931 it was up to 15 cents.

Mr. ELLSWORTH: From the testimony before this committee it is generally accepted, is it not, that the Imperial Oil Co. makes the prices? Therefore should not the question be asked of them rather than of us?

Mr. BOTHWELL: Well we will leave it at that and draw our own conclusions.

Dr. DONNELLY: We will ask them when they come.

Mr. ELLSWORTH: We are not interested in the tank-car business, it is a very small percentage of our business. We find the tank-wagon business, the dealer business, more profitable.

Dr. DONNELLY: Well we will leave this. When these people come back we will have to ask them the same question, but we wanted to see what your answer was, to compare it with the others.

Mr. ELLSWORTH: If we regulated the price we would have the answer for you, but since we do not we have not.

Mr. BOTHWELL: I think now we can go into the distribution end.

P. W. BINNS, called and sworn:

The CHAIRMAN: What is your position in the company, Mr. Binns?—A. General sales manager.

By Mr. Bothwell:

Q. Evidence has already been given that most of your business is handled in tank-wagon lots.—A. Yes, sir.

Q. That is, so far as the tank-car business from your refinery, most of that is handled through your own distributing facilities?—A. Yes, sir.

Q. Last year you did sell some tank-car lots.—A. Yes.

Q. That would be sold, I presume, at your refinery either at Montreal or Toronto?—A. No, it was sold at the point of destination.

Q. Does this zone system work in selling tank-car lots the same as it does with your tank-wagon lots?—A. No sir, the tank-car price was based on the import price plus the freight to the point of destination.

Q. On the import price?—A. On the price of Pennsylvania or points like that plus the freight to point of destination, if you wish to secure the business.

Q. Let us follow that. Do you say the price was fixed by the cost in Pennsylvania?—A. I do not say only Pennsylvania, I am talking about any point.

Q. Plus the cost of freight?—A. Yes.

Q. That is from Pennsylvania or wherever it is shipped from.—A. Yes sir.

Q. So that if you are selling a tank-car at Orillia, Ontario,—that would probably come from the mid-continent field?—A. No, with us it would really come from Pennsylvania.

Q. Then you would charge the Pennsylvania price would you?—A. No we would not do that really. There is a tank-car price established there. We either take the business or refuse it, if it is not profitable to us we refuse it. We only manufacture a certain quantity of gasolene, naturally we get the best distribution we can for that. Therefore it was not profitable for us to take tank-car business where freights were high from point of origin.

Q. You only made two or three sales of tank-car lots last year, possibly you could give us the details of those, that might be the best way of arriving at it.—A. For instance there is the freight say from Toronto to Newmarket. The low rates would enable us to sell there perhaps. But where there is a large freight we could not afford to ship, we would lose money if we did. You see how many tank-cars of gasolene we shipped in 1931.

Q. Well what I want to get is how you fixed your price when you sold tank-cars of gasolene.—A. We met competition. The other company made the tank-car price and we met it.

Dr. DONNELLY: Well give us the dates you sold and the price.—A. The tank-car price on Toronto in 1931 was $14\frac{1}{2}$.

Q. What time?—A. January 20. March 12, 12.10. August, 14. September, $14\frac{1}{2}$, and is still $14\frac{1}{2}$.

By Mr. Bothwell:

Q. Up to the present time.—A. Yes.

Q. Continued at that price?—A. Yes, right through. Anywhere within that zone.

Q. That is f.o.b. Toronto?—A. No, that was the price delivered at any place in that zone.

Q. What would that cover?—A. From Oshawa to Windsor and as far north as Barrie.

By Mr. Spencer:

Q. Do the different oil companies have the same zones?—A. I think they do practically. They may overlap once in a while.

By Dr. Donnelly:

Q. You had nothing to do with fixing that price, you simply followed the Imperial Oil price?—A. Correct.

Q. We have had evidence from the Imperial Oil as to how that is arrived at. Now you operate quite a number of service stations?—A. No we do not operate a lot ourselves.

Q. Some?—A. Thirty-five.

Q. How many service stations have you?—A. 370.

Q. That includes the 35?—A. Yes.

Q. And you have these rented?—A. Yes, the rest of them are rented.

By Mr. Bothwell:

Q. Can you tell us what your investment is in service stations?—A. Yes sir. Total $7,053,913.40.

Q. That is your investment at the end of 1931 I presume?—A. Yes.

By Dr. Donnelly:

Q. Can you differentiate between the thirty-five and the others, what you have invested in those—you have rented, leaving out the 35?—A. I could not very well do that. They are all practically on a par.

Q. Can you tell us the amount of rent you get?—A. Our average yield is about 4 per cent on the investment.

Q. Is that taking into account the 35 you handle yourself as well as the others?—A. No, that does not take that in.

Q. These 35, what percentage do they give?—A. They about break even, they cost us perhaps a little more, but taking the thing as a whole it costs us about one-third of a cent to market through these stations more than what we realize from the 3½ cent differential we get from the consumer.

Q. I do not understand that.—A. You sell at tank-wagon market price, the retailer gets 3½ cents for retailing cost; I say over and above that it costs us one-third of a cent a gallon through those stations.

Q. How do you figure that?—A. Well the four per cent takes that into consideration, we should get more than four per cent return on our investment.

Q. You do not get four per cent?—A. Yes, but we figure that makes the one-third cent difference.

Q. I still do not understand you.—A. We figure we should get a six per cent return, and we only get four.

Q. Did you borrow any money to build these service stations?—A. It all came out of our own capital.

Mr. Ellsworth: No, we did not. We have not built any stations recently. I do not think we have built 30 stations in the last three years.

Q. How do you asquire them?—

Mr. Ellsworth: Prior to that we had built them.

Q. You have not been acquiring stations lately?—A. No.

By Mr. Bothwell:

Q. You made the statement that on these 35 stations operated by yourself you about break even? What do you mean by "about break even"? Don't you make the four per cent on your investment there?

Mr. Bransdon: On the 35 stations that we operate ourselves we show a net profit of $11,433.51 That is arrived at because we are getting the advantage of the 3½ cent differential between the tank-wagon price and the service station price. The other stations that we lease to operators, they get the benefit of the 3½ cents.

Dr. Donnelly: What percentage does that work out on your investment in those 35 stations? Do you make more by running them yourselves.

Mr. Bransdon: It is a difficult question to answer. The location enters into it, some stations are good, some are not so good.

Dr. Donnelly: But you know the 35 stations you have got, and what your investment is in them and how you are coming out.

Mr. Bransdon: We would not make one per cent on those.

By Mr. Smoke:

Q. Why don't you go out of business and rent them and make four per cent?

The Witness: Of course we have to give a great deal better service through our own stations.

Q. Do you take into account depreciation.—A. Yes.

Q. That is written off before you announced that $11,000 profit?—A. Yes.

Q. Taking that $7,053,913.40 investment in service stations, what amount was written off for depreciation last year?

Mr. Bransdon: Depreciation on service stations in eastern Canada was $305,642.95.

By Mr. Spencer:

Q. What per cent do you allow.—A. Various rates, as allowed by the Dominion of Canada Income Tax Department. In Western Canada the depreciation was $161,188.02.

Q. What rates does the income tax form call for?—A. Those rates were all given this morning, and they are in the minutes.

By Mr. Donnelly:

Q. Your rate of depreciation on your tanks and that, underground, would be more than on the buildings?—A. Yes sir.

By Mr. Bothwell:

Q. I presume the same rate of depreciation applies in both eastern and western Canada?—A. Yes sir.

By Mr. Donnelly:

Q. Probably we better have those stations by provinces.—A.

Manitoba	$ 806,906
Alberta	436,845
Saskatchewan	677,424
Total in the West	$1,921,175
Ontario	$4,083,496
Quebec	1,049,239

Q. Do you operate in the Maritimes?—A. We do not.

By Mr. Bothwell:

Q. Take the City of Ottawa for instance, how many service stations have you here?—A. Three.

Q. Do you control any other stations besides those you own?—A. No sir.

Q. In any part of Canada?—A. Well some may be controlled. Yes we may lease some.

Q. At the end of December, 1931, how many service stations were you operating that you did not own?—A. That we had rented. That is comprised in the list we gave you of service stations.

Q. That is that are operated by you, or—.—A. Or under lease, under our control.

Q. You mentioned that to these service stations that you rent out to independent dealers you allow them $3\frac{1}{2}$ cents a gallon for distributing?—A. No, they get exactly the same tank-wagon price that they would if they were a regular buyer.

Q. And that tank-wagon price is $3\frac{1}{2}$ cents a gallon—.—A. Under the selling price.

Q. Under the retail price?—A. Yes.

Q. In the operation of your stations, these 35 stations operated by you on which you say you are not making more than 1 per cent, how is it that you only make one per cent on those, whereas the people who rent from you are able to pay you four per cent? I presume they must make some money, or they would not be in the business?—A. Yes they make some money.

Q. How do you account for that?—A. Well for one thing the stations that we operate are manned a great deal better. Another thing, you lease a station, a man is willing to put in almost twice as many hours as a man who is employed. And he perhaps uses only one or two boys at each station. The overhead is entirely different.

Q. In the stations that you operate yourselves, you of course keep an account of what is sold and what yields the best profit? Is gasoline the most profitable product that you sell, or are the others more profitable?—A. Gasoline is supposed to be the most profitable. The volume is so much greater.

Q. How does the percentage compare?—A. We have not got that divided up. I am sorry.

By Mr. Donnelly:

Q. You ship as far west as Fort William?—A. No sir, we do not.

Q. You told us that this morning.—A. I beg your pardon. I thought you meant with our own distributors.

Q. Do you ship by tank car lots?—A. We ship it in tank car lots.

Q. Tank car lots?—A. Yes.

Q. You do not ship any by boat?—A. No sir.

Q. Are water rates cheaper?—A. Yes.

Mr. Ellsworth: We have neither facilities for transporting, nor facilities for receiving and storing.

By Mr. Bothwell:

Q. Now, you are selling in Saskatchewan. I presume you are operating some of your own stations there. In any event you are selling in tank car lots. How is it you are not able to sell in Saskatchewan as cheaply as they do in Montana, just across the line?—A. Well as I told you, we purchase our gasoline there. We cannot sell it any cheaper than the standard set up by our opposition. They set the prices.

By Mr. Spencer:

Q. They set the prices. Do they set the prices at which you have to sell it?—A. No; we have to meet their competition or we do not get the business.

By Mr. Bothwell:

Q. Do you know anything about the prices in Montana?—A. I do not, sir.

By Mr. Donnelly:

Q. You have tanks at different places throughout Saskatchewan?—A. Yes.

Q. What do you allow your own men for handling your tanks?—A. It runs about $3\frac{1}{2}$ cents.

Q. For selling it out?—A. Yes.

Q. What do you allow, if you have any men—have you any men delivering in tank cars in the country?—A. Yes.

Q. What do you allow them?—A. They operate under that $3\frac{1}{2}$ cents automatic basis per gallon.

By Mr. Bothwell:

Q. What does your company allow the agents for evaporation?—A. One per cent.

Q. Has there been any change made in the allowance recently?—A. We have always made an allowance to try and satisfy our agents at all times if we thought—

Q. There has been quite an objection this year in connection with evaporation?—A. As to crude?

Q. I was wondering if there was any change made recently.—A. Not as far as—

Q. Does that one per cent cover most of the shortages?—A. Oh yes, it would, sir. If it does not, we certainly take care of it.

Q. Your company gave evidence in Regina?—A. Yes.

Q. Apparently they are spending considerable time there in connection with evaporation and loss?—A. Yes.

By Mr. Donnelly:

Q. You have a schedule that you work on?—A. Temperatures and weights, gravities, all agents have it.

Q. A regular one?—A. Yes.

Mr. ELLSWORTH: May I interject something in connection with the Saskatchewan matter. When I read a transcript of the testimony as given at Regina it gave us much concern in Toronto, because a number of agents were testifying in a manner uncomplimentary to our company. We have 660 agents out there. These men are not, however, of the same mentality, not of the same disposition. Five of them, I think, have testified before the committee in Saskatchewan. I am getting the transcript of this evidence. I despatched two men from the firm of Clarkson, Gordon and Dilworth's office to make an independent investigation in the matter of shortages, and so forth. I am awaiting their report. Have you seen the testimony of the last meeting, or probably the one before the last? I suppose you have.

Mr. BOTHWELL: The newspaper report is all I have seen.

Mr. ELLSWORTH: I have a transcript of the evidence. We were able to put on the stand satisfied agents. We were told it was not necessary, inasmuch as in a week's time over 300 of the agents that we have in Saskatchewan had signed our new contract. The committee considered that sufficient evidence that our company was treating its men fairly.

Mr. BOTHWELL: Just on that point. These contracts were obtained under considerable pressure in a lot of cases, were they not?

Mr. ELLSWORTH: No; pressure as to time.

Mr. BOTHWELL: Pressure as to time?

Mr. ELLSWORTH: Yes.

Mr. BOTHWELL: Was there not pressure—

Mr. ELLSWORTH: No coercion. A man is perfectly free to leave us, as we are free to discharge him.

Mr. BOTHWELL: Also pressure as to time. If the contract was not signed immediately, the agent was out of a job, out of a position as your representative.

The WITNESS: I do not think that is the case, sir.

Mr. BOTHWELL: That is what I would gather from the evidence given at Regina.

The WITNESS: I do not think so, sir. Have you read the last evidence given at the last two sittings?

Mr. BOTHWELL: There was evidence given from satisfied agents, that the list of satisfied agents was obtained by possibly not coercion but at least by—

Mr. ELLSWORTH: Our company obtained no such list.

The WITNESS: We do not obtain any list, or submit any list at all.

Mr. BOTHWELL: Possibly that was the Imperial Oil.

Mr. ELLSWORTH: We were willing to bring the agents to testify, but we were advised it was not necessary.

Mr. BOTHWELL: In connection with the renewals of contracts at Regina, since that was brought out, is it not a fact that numbers of those contracts were obtained from agents who had been acting as agents for years, and who had some complaints in connection with shortages, and who were told, "you sign that contract now, or you are no longer in the employ of the company."

Mr. ELLSWORTH: No, sir, I do not believe that. If I knew of anybody who did that, we would not have that man in our employ ten minutes.

Mr. BOTHWELL: It is a matter of general talk around the country.

Mr. ELLSWORTH: Was it developed through the evidence?

Mr. BOTHWELL: That was the talk outside.

The WITNESS: I would like you to see the last sittings of the commission, the evidence of the last of the two meetings.

By Mr. Bothwell:

Q. In any event, so far as you know, there was no pressure of that kind?—A. No sir, we would not keep a man who did that.

Q. You signed up how many of your agents out there?—A. I think about 300.

Q. Out of 600 and something?

Mr. ELLSWORTH: The 600 figure covers the three provinces, 660 or 666.

Q. That means practically all the agents in Saskatchewan?—A. Practically all of the agents in Saskatchewan.

Q. Was there an allowance made to those agents for the shortages?—A. No sir, not that I know of.

Mr. ELLSWORTH: In other words, you are asking was any promise given that we would make an allowance if they executed the contract. The answer is no.

By Mr. Bothwell:

Q. As a matter of fact, did the contract not provide that if the agent signed it, he had signed away any right to make any claim for shortages?—A. I have not got a copy of the contract, sir, I cannot tell you.

Mr. ELLSWORTH: I would not be surprised if that provision was in the contract.

Q. Well then, coming back to this distribution.

Mr. ELLSWORTH: Excuse me just a moment, Mr. Bothwell. One of our agents who testified against us, was asked if he desired to leave the employ of the British American Oil Company, and he said no, he wanted to hold his job, and yet he testified against us.

Q. I think there were a number that testified against you that wanted to hold their jobs; there were many that would have liked to testify against you, and still wanted to hold their position. These are difficult times, you know, for a man to walk out of employment.

Mr. SMOKE: What has this to do with the question of distribution, anyway?

The CHAIRMAN: Nothing whatever.

By Mr. Bothwell:

Q. Coming to the question of distribution again, so far as western Canada is concerned, your price for gasoline is controlled, I might say, by the price fixed by the Imperial Oil.—A. It is not controlled. We have to sell at their prices. We cannot get more money for it. If we sold for less we would lose money.

Q. Because you buy from them?—A. Absolutely.

Q. In eastern Canada where you are producing yourselves, you still follow Imperial Oil prices?—A. For the same reason; because if we sold for less we would lose money.

Q. Well— —A. We would not get business if we sold for more.

Q. I presume the Imperial Oil Company are making money at 1.01 cents per gallon?—A. I cannot tell you.

Q. At least that is what they say their profit is. You tell us your profit is 1.88 cents per gallon.—A. Yes, sir. I know what our profit is. They are different years, ours 1931 and 1930 the other company.

Q. You don't know what your profit was in 1930?—A. I do not, sir.

Q. The Imperial Oil do not know what their profit was in 1931.

Mr. PETTIT: I thought they said they lost ten millon dollars?

Mr. DONNELLY: No, they had not made up their books for 1931.

Mr. SMOKE: Some American companies had lost ten million dollars.

Mr. ELLSWORTH: Quite a number of them lost ten million.

Mr. DONNELLY: In the United States?

Mr. ELLSWORTH: Yes.

Mr. BOTHWELL: You were going to make up a statement showing that had you not changed your method of transporting gasoline to your refinery, you would not have received enough to pay your dividends of eighty cents in 1931.

Mr. ELLSWORTH: Quite right.

Mr. BOTHWELL: And by changing the method you were able to earn—

Mr. ELLSWORTH: Three cents more per share than the preceding year.

The WITNESS: One dollar and four cents in 1931.

Mr. ELLSWORTH: Three cents more per share than the preceding year.

By Mr. Donnelly:

Q. If a man in a service station in the city of Ottawa cut prices, do you refuse to sell him?—A. We cannot do that, sir.

Q. You sell to him, anyway?—A. Yes, we sell to him anyway.

Q. You do not go to him and try to persuade him to keep the prices up? —A. We try to persuade him to stop; if not, it is to his own detriment, as he loses money and goes out of business anyway.

Q. You you continue to sell him?—A. Certainly. We do not stop. We prevail upon him and show him the error of his ways, and show him he cannot make money doing that, if we can. If we do not, he soon sees himself.

By Mr. Bothwell:

Q. This is possibly not a question for this particular witness. During past years, can you give us the profit that you have had in your plant per gallon of gasoline, in any year, outside of 1931?

Mr. ELLSWORTH: No.

Q. Why not?

Mr. ELLSWORTH: Because we did not treat money values in those past years. It was only the year 1931 that we began to treat money values as applying to each particular product that we sold.

Q. In some years in the past, you must have made tremendous profits, and it seems rather strange to me that you do not know in what particular line you made that profit.

Mr. ELLSWORTH: If it had not been for this investigation we would not have gone to the trouble to ascertain what our profit was in cents per gallon. It costs money to run a statistical organization. We do just as little of it as we can.

Q. In figuring from this sales realization standpoint, would it not be possible to figure for those other years as to what your profit was per gallon?

Mr. Ellsworth: No, because you would have to have your gross sales value for each particular product sold.

Mr. Bronsdon: That entails, Mr. Bothwell, analyzing every invoice according to the product. It is quite an expensive system, and takes considerable time to do it.

The Chairman: Have you any further questions to ask this witness, Mr. Bothwell?

Mr. Bronsdon: I would like to say, in our discussions with your auditors, Touche and Company, we undertook for 1930 to get at the profit per barrel of crude. We showed them how it was impossible to split it in commodities, and they were agreeable to that.

Mr. Bothwell: You have given us the profit per barrel for 1931 have you, of crude?

Mr. Bronsdon: Given it per gallon.

By Mr. Bothwell:

Q. Our auditors obtained the same figures for 1930— —A. 1930 and 1931.

Q. —as you have given us. You did not give us the actual cost of refining per gallon this morning.

Mr. Bronson: Yes, sir, I included that set or figures.

Mr. Donnelly: I don't think you did.

Mr. Bothwell: I do not seem to have it anyway.

Mr. Donnelly: We have the amount of crude that you charged for the gasoline.

Mr. Bronsdon: I gave you a figure of 1·73 cents per gallon.

Mr. Donnelly: That is right, you did.

Mr. Bothwell: That was refining cost.

Mr. Bronsdon: Yes.

Mr. Bothwell: Per gallon of crude.

Mr. Bronsdon: Per gallon of crude.

Mr. Ellsworth: It would depend very largely on the process employed, Mr. Bothwell.

Mr. Bothwell: We had evidence from the Imperiol Oil that the cost of producing gasoline, refining gasoline at their Ioco plant at Vancouver is ·73 cents.

Mr. Bronsdon: That is because they are refining crude that contains a very large percentage of fuel oil, and is only a skimming operation.

Mr. Bothwell: There is another question I wanted to ask in connection with your fuel oil. From the figures that we have here, a very small proportion of the cost of operation is chargeable to this fuel oil.

Mr. Bronsdon: It is a fair proportion based on the Federal Commission method of cost finding.

Mr. Bothwell: Is there any difficulty in Canada in getting rid of fuel oil?

Mr. Ellsworth: Well we have only been making fuel oil in Montreal for a short time. We have in stock quite a quantity of this fuel oil. In Toronto we do not make any heavy oil. Our production there is very largely what we term domestic oil, sold to fuel vendors.

Mr. Bothwell: We are told that there is a great over-production of fuel oil in Canada; that refineries have difficulty in getting rid of it. I want to know if there is any truth in it.

The Witness: That is correct sir, in connection with bunker seal fuel oil, what we call bunker sea fuel, heavy fuel oil.

By Mr. Bothwell:

Q. What does it sell at?—A. I cannot give you the prices, sir; I have not got them here.

Q. Very low prices?—A. Very low prices.

Q. A couple of cents a gallon or less than that?—A. No, not as low as that, about 1.05 a barrel, perhaps three cents a gallon.

By Mr. Spencer:

Q. What is it used for mostly?—A. Some big factories use it, and boats for bunkering fuel.

Q. I do not know whether the witness can answer this question or not. Do you have to pay any duty on American refined oil used for blending?—A. American refined oil?

Q. Yes.—A. We do not use any refined oil. I think you are referring there to casing-head gasoline.

Q. Yes.—A. That came up this morning. Yes. There is no duty on that.

Q. No duty?—A. No.

Q. Could you not use a lot of American oil and a very small amount of Canadian oil, and get away from duty?—A. No; because the volatility would be too high. In fact, where the statement was made this morning that the importation was 4,000,000 gallons, I do not think our importations this year will be 25 or 20 per cent of that.

By Mr. Bothwell:

Q. The statement has been made that out of this mid-continent fuel crude, an up-to-date refining plant would get about 70 per cent gasoline, 25 per cent kerosene and fuel oil—

Mr. Ellsworth: I think that extra 10 per cent of yield would cost more than it was worth.

Mr. Bothwell: I do not know anything about whether this statement is correct or not. I am just reading from one of the communications that we have received.

Mr. Ellsworth: You would have what is called recycling, which is very expensive. You would have to apply higher temperature, and higher pressure. The extra ten per cent would not be worth what it would cost. I am quite satisfied as to that.

Mr. Bothwell: This Montreal plant of yours is right up to date?

Mr. Ellsworth: Yes.

Mr. Bothwell: Is it not?

Mr. Ellsworth: Yes.

Mr. Bothwell: And there your yield runs from 60 to 65 per cent.

Mr. Ellsworth: Quite so.

Mr. Bothwell: Do you use any of the Venezuelan crude at all?

Mr. Ellsworth: None. All of the crude run at Montreal came from east Texas.

By Mr. Donnelly:

Q. It is too high in fuel oil?—A. Yes.

Mr. Bothwell: I do not think I have any further questions. Anything further I have would be in connection with these costs, and it would come from the auditors.

The Chairman: Yes.

Mr. BOTHWELL: It strikes me, Mr. Chairman, it might be necessary to have Mr. Ellsworth or somebody from the company appear here after we have had the report of those auditors. There might be something come up.

The CHAIRMAN: Quite so.

By Mr. Stanley:

Q. I do not know whether Mr. Bothwell asked in regard to distribution work of the company in the three western provinces. They purchase gasoline from the Imperial Oil and resell it to the consumer; and their statement was that they make a profit. Does your statement show the profit that is made in connection with this phase of your business in the western provinces?

Mr. BRONSDON: Yes, our western business shows a profit of 1.21 cents a gallon.

Mr. STANLEY: A profit of 1.21 cents a gallon?

Mr. BRONSDON: Yes.

Mr. STANLEY: That would take the three western provinces.

Mr. BRONSDON: It includes all products, lubricating oils—all products sold. As a matter of fact, on our refined oil we show a loss for the year 1931.

Mr. STANLEY: Does that take into account all your business? I presume you own a lot of your service stations.

Mr. DONNELLY: Have you extended credit to farmers?

Mr. ELLSWORTH: Yes.

Mr. DONNELLY: Have you written any of it off?

Mr. ELLSWORTH: We have not written any of it off. We have set up a reserve in respect of it.

Mr. BOTHWELL: You say your refined oil stands at a loss for last year?

Mr. BRONSDON: Yes.

By Mr. Bothwell:

Q. In western Canada. You mean by refined oil gasoline?—A. No, kerosene.

Q. Is that attributable to the reduction of five cents a gallon?—A. Yes.

By Mr. Stanley:

Q. How do you account for the fact that the Imperial Oil made a profit of 1·01 cents for all Canada, and you make a profit of 1·21 cents a gallon in western Canada.

By Mr. Spencer:

Q. What do you sell kerosene at?—A. It ranges from 16½ to 17½ cents.

Mr. ELLSWORTH: We will all know more about our competitors' business before this is through.

Mr. DONNELLY: This is in western Canada?—A. That is in western Canada, small branches in the west.

Mr. SPENCER: I happen to have a bill before me from Winnipeg, a bill of the North Star Oil Company where it was 21 cents.—A. I cannot tell you anything about that.

By Mr. Bothwell:

Q. The Imperial Oil representatives said that if anybody cut prices they endeavoured not to sell to that particular individual; that their other agents in the same locality objected.—A. Well, we have been very successful with our persuasive powers—

Q. Have you had the same experience?—A. We have had the same experience where people have cut, and other dealers, agents, objected. Naturally, it hurts their business; they are not able to make a margin of profit. We have used our persuasive powers to bring them to our way of thinking so that they will make a reasonable profit.

Q. If a man persists in cutting, do you sell him?—A. Yes; but he soon goes out of the picture.

Mr. SMOKE: Mr. Ellsworth stated that there has been a reserve fund set aside for promise accounts.

Mr. ELLSWORTH: We hope to get that money sometime.

Mr. SMOKE: What proportion does that reserve bear to the amount of your sales in that territory? That would affect somewhat the price to the man who does pay.

Mr. ELLSWORTH: Yes. In many respects the innocent has to suffer for the others.

Mr. SMOKE: I would just like to know the proportion the reserve bears to the total sale.

Mr. ELLSWORTH: Less than two per cent.

Mr. GANONG: That would not be written off in one year's profit; that would cover two or three years.

Mr. ELLSWORTH: When did we start the credit system? In 1929, and we continued over into 1930. That was 15 months. I think we discontinued it in October.

By Mr. Donnelly:

Q. Have you much out in western Canada?—A. $1,800,000. In connection with the question you asked me as to our credits out there. You probably noted that at the investigation at Regina, one of the members stated prices were too high, the oil companies knew it, and that is the reason they give credits which they did not expect to collect.

By Mr. Bothwell:

Q. It has been stated, and it is fairly apparent to most people in many of those towns or cities, that there are too many service stations for the population who use the commodities that are sold. Do you people bear the same opinion as is generally expressed?

Mr. ELLSWORTH: Yes we do. That is the reason why in the last three years we have spent very little money in filling stations.

Mr. DONNELLY: Have you written down the value of your property or real estate that you have in those stations?

Mr. ELLSWORTH: Not at all.

Q. Do you buy a corner lot for $10,000 and next year write it down to say $5,000 or so?—A. We do not; we neither write it down nor up.

By Mr. Smoke:

Q. You write off the buildings?—A. That is all.

Mr. SPENCER: That would not amount to very much.

Mr. CHAIRMAN: We shall adjourn at the call of the chair.

Committee adjourned at the call of the chair.

APPENDIX

BRITISH AMERICAN OIL CO. LTD.

Year	Gross Revenue	Depre-ciation	Dominion Income Tax	Net Earnings
	$ cts.	$ cts.	$ cts.	$ cts.
1928	4,335,552 99	841,308 21	260,000 00	3,234,724 78
1929	4,391,809 35	874,498 73	281,384 88	3,235,925 74
1930	4,111,215 44	1,017,848 45	237,000 00	*2,648,033 66
1931	4,415,745 26	1,138,328 69	302,000 00	*2,730,930 09

*Debenture Interest deducted $208,333.33—Year 1930.
244,486.48 " 1931.

SESSION 1932

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

THURSDAY, APRIL 7, 1932

No. 8

Reference.—Price of Gasoline

WITNESS:

Mr. Ed. Richards, Assistant Dominion Appraiser.

Appendix,—Documents filed by Witness.

Statement of Importations and Import Duties, 1931-32

Statement of Provincial Receipts from Gasolene Tax, 1929 and 1930.

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1932

MINUTES OF PROCEEDINGS

House of Commons,
Thursday, April 7, 1932.

The meeting came to order at 11.30 A.M., Mr. Matthews presiding.

Members present: Messrs. Arthurs, Beynon, Bothwell, Donnelly, Ganong, Irvine, Matthews, McGibbon, Pettit, Smoke, Spencer, Stanley.

The Committee again took under consideration the reference to Gasolene prices.

Mr. Edward Richards, Assistant Dominion Appraiser, of the Department of National Revenue, was called, sworn and examined.

The meeting adjourned at the call of the Chair.

A. A. FRASER,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
THURSDAY, April 7, 1932.

The Select Standing Committee on Banking and Commerce met at 11.30 o'clock, Mr. Matthews presiding.

The CHAIRMAN: Gentlemen, the witness this morning will be Mr. Edward Richards, of the appraisers' branch, Department of National Revenue.

EDWARD RICHARDS, called and sworn.

By Mr. Bothwell:

Q. What is your position with the department, Mr. Richards?—A. Assistant Dominion Appraiser, in charge of values, values appraising.

By Mr. Donnelly:

Q. Do you know, Mr. Richards, the amount of gasoline brought into the country from year to year?—A. No, sir. I have no opportunity to follow the statistical returns.

Q. You cannot tell us the amount of gasoline brought in in 1930 and 1931?—A. No, I have no information. I could obtain it for you.

Q. I think it is very necessary to know the amount of casing-head gasoline brought in, and other gasoline brought in, and the duty paid, and dumping duty and all that sort of thing. This statement from the Department does not give us the amount collected in dumping duty. We wanted the dumping duty, so as to differentiate it from the other. We should like to have the amount collected from the dumping duty.—A. Mr. Chairman, I understand there is no separate statistical return kept of dumping duty.

By Mr. Donnelly:

Q. What was the duty on gasoline in the first part of September, 1930?—A. I understand it was 2½ cents a gallon.

Q. In 1930, before the act was changed?—A. I would prefer not to give any evidence on matters of rates of duty. My work is entirely connected with valuations. You can easily find that from the tariff, I think, sir.

By Mr. Bothwell:

Q. Mr. Richards, are you the member of the department who arrived at the values in fixing the various prices at which gasoline should be imported into Canada?—A. I was.

Q. From the different fields?—A. I was.

Q. Have you the orders in council that were passed fixing those various prices?—A. There were none.

By Mr. Donnelly:

Q. There were none?—A. No.

By Mr. Bothwell:

Q. There were various bulletins issued by the Department of National Revenue stating what the price of gasoline should be from various fields for import purposes?—A. Yes.

Q. Have you the various bulletins that have been issued since 1930 in that regard, say from September, 1930?—A. Yes, I have.

Q. We had better have those filed, then?—A. In addition to the general bulletins, there are two circular letters, which serve the same purpose.

Q. That would go out to all offices in Canada?—A. All offices that were interested. The circular letters would go to a selected list of ports; the bulletins would go to all ports.

Q. You say the letter would go to a selected list of offices?—A. Yes.

Q. How would that selected list be arrived at?—A. Large ports; wherever the department had reason to believe imports would be made.

Q. Apparently the date of the first bulletin is February 24, 1931. Is that right?—A. Yes.

Q. And the first issue of the valuations was on the 23rd of October, 1930.

By Mr. Donnelly:

Q. You started on the 23rd of October?—A. They are complete, make a full series.

Q. This is your first letter?—A. Yes, sir.

Q. Asking them to state the prices, for example?—A. That is the first.

Q. "You are instructed to appraise importations of gasoline from Pennsylvania at a minimum differential of three cents per wine gallon over the current crude oil price."—A. That is correct.

Q. Were you the man who wrote this letter?—A. Yes.

Q. You say, "the present price of crude oil is 5·714 cents per wine gallon." Where did you take that price from, 5·714 cents? How did you arrive at that figure?—A. That would be the Bradford posted price, because as I remember it only Pennsylvania fields were involved in that letter.

Q. When did you fix the minimum differential of three cents per wine gallon?—A. We reviewed the differential that had existed for a number of years, and had noted that the market had become severe, was greatly depressed, because of congested or distressed markets, or rather, put it this way, that we noted the differential had become greatly decreased because of the greatly depressed market. There were many evidences before the department of a depressed market.

Q. A depressed market in Pennsylvania?—A. Yes.

Q. What evidence was before the department?—A. Mainly the differential, and reports that the refineries were losing money.

Q. That is, the differential between Pennsylvania and what other fields?—A. The differential between Pennsylvania crude oil and gasoline. There is the real test of the return on refining.

Q. What was the differential at the time you issued this letter between Pennsylvania crude and gasoline?—A. It was 8/10ths of a cent.

Q. That is apparently all that the refineries were charging in Pennsylvania for turning crude oil into gasoline. So the difference in price between crude oil and gasoline was ·8 cent per wine gallon?—A. That would be a relative indication.

Q. Have you records there to show how long that particular differential lasted, or what the differential was over a period of time?—A. In 1925 the average was 5·183 cents per wine gallon; in 1926 it was 4·634 cents; in 1927 it was 2·234 cents; in 1928 it was 2·058 cents; in 1929 it was ·842 cent, and on the 15th of September in 1930 it was ·80 cent.

Q. That was a wine gallon?—A. That was per wine gallon.

Q. You have not got that worked out in imperial gallons?—A. Well, divide it; take six-fifths.

By Mr. Donnelly:

Q. How much of that differential is due to the improved methods of refining?—A. I have no means of knowing.

By Mr. Bothwell:

Q. So this differential had dropped so low between Pennsylvania crude and Pennsylvania refined that you thought it was necessary to increase the price for gasoline coming into Canada for duty purposes?—A. Yes. Back in the periods here when refineries were making a reasonable return, as indicated by published reports, the differentials were as I gave you.

Q. You make a differential of three cents per wine gallon although the trend had been downward all through those years from 1925; although the differentials were greatly reducing year by year?—A. There is another factor in the Pennsylvania situation, which should be taken into account, and that is that the Pennsylvania oil is particularly suitable for the production of lubricating oils; and it is largely used, primarily, for that purpose. The depreciation in value was due to that and other factors, competition from gulf oil coming up the coast and Pennsylvania gasoline becoming a by-product.

Q. At that time, did you investigate to find out how much Pennsylvania crude was actually produced?—A. I cannot see that that would have any bearing on it.

Q. Had you knowledge of this fact that what is called Pennsylvania gasoline applies to practically all the Atlantic seaboard?—A. That is correct, except that Bradford is a basing point.

Q. Is it not a fact that the Atlantic coast refineries refine only a very, very small proportion of Pennsylvania crude?—A. Quite true.

Q. So that the fact that Pennsylvania crude is high in lubricating oil has very little to do with the price of gasoline in the Atlantic coast region?—A. We carried our investigation further than has been indicated. We went into the mid-continent fields, that is called group No. 3, Oklahoma, North Texas, and Kansas, where gasoline is of first importance, and other things come after. There we examined the differrential, and our action was based more on that than it was on the Pennsylvania situation, for the reasons which I gave a moment ago.

Q. Did anybody from the department actually visit those fields, or simply take the reports?—A. We did not visit the fields, there was no need for that. We have ample knowledge that the posted prices as published in reliable oil journals are true to fact. We have known that from investigations.

Q. However, you mentioned a few moments ago that one of the factors that enter into the fixing of prices of gasoline coming from Bradford, for instance, what we will call Pennsylvania gasoline, was the fact that Pennsylvania crude was high in lubricating oils. Now, that was not a very material factor, was it?—A. No, that was the real accounting factor in the first depression of Pennsylvania gasoline, the early depression of it.

Q. Now, I will have to go back to my other question. Is it not a fact that the crude oil that is refined in the Atlantic coast region is largely composed of mid-continent and other foreign crudes, rather than Pennsylvania crude?—A. I believe so.

Q. So that what little Pennsylvania crude was being turned into gasoline, bore a very small proportion to the amount of gasoline that was being produced. Is not that true?—A. I don't know whether it is or not; but even if it were true, we would be justified in overlooking any differentials in mid-continent gasoline on the Atlantic coast if we found that their conditions were more normal and had been stable over a number of years at the point of production.

Q. I am trying to finish with this Pennsylvania field before we get into the mid-continent field. Anyway, I will put it this way; the byproduct gasoline that you spoke of from Pennsylvania was very small in proportion to the total volume of gasoline coming from the Atlantic, coast region, so small in fact that it did not make very much difference in price, whether it was high in lubricating oils or not. That is about the fact?—A. That is right.

Q. Well then, you say you investigated the mid-continent fields. Did you find differentials there?—A. Yes, in Oklahoma or mid-continent.

Q. Now, in Oklahoma, there had also been a gradual reduction over a period of years in the differential?—A. Yes, sir.

Q. I think possibly it might be well for you to give us what the differential was over a period of years in Oklahoma.—A. The principal, popular gasoline in the mid-continent is what is called 58-60, 58 to 60. It carried during the period I mentioned, differentials as follows, over the posted price, 36, 36.9 B.G. crude oil; that is, run of pipe line. In 1925, 6.04 per United States gallon; in 1926, 5.453—permit me to drop that last decimal point if I may—1927, 3.35; 1928, 4.40; 1929, 4.24. On the 15th of September, 1930, this had dropped to 2.76. The start down, the depression in the mid-continent field of this refining factor had commenced then.

Q. Have you got the figure there for September 15, per imperial gallon?—A. Yes, per United States gallon, 2.77 cents.

By Mr. Smoke:

Q. Can you give us a comparative financial statement of those companies for those years?—A. We had evidence of that. I am not in a position to furnish those. I believe there is a file. I can search for them. They were before the department. I have them here on record in my memoranda.

Q. My point is they have been losing money rather than making it in recent years?—A. That is our information.

Mr. Stanley: That was in evidence here.

By Mr. Bothwell:

Q. Is that a fact in connection with the mid-continent field also in those reducing differentials?—A. Yes. It is the mid-continent field I was speaking of last.

Q. I mean, that the companies were losing money.—A. Yes.

Q. Since September 15, 1930, the price of crude has continued to drop, has it not?—A. It has.

Q. Just what other fields did you investigate before you fixed the differential?—A. California.

Q. California? We had a list of prices filed by Mr. Ross, which appear on page 112 of the proceedings of this committee. Have you read over that exhibit that was filed?—A. Yes, I have seen it.

Q. I presume those figures are exactly the same, except that they have been reduced to imperial gallons, as you have given us.—A. Yes; they were derived from the same sources, I believe.

Q. Without putting this on record again, we can follow this statement, exhibit "A" as showing the trend of crude oil prices and gasoline prices and differentials.—A. I understand so. I had my own figures, as we compiled them here, in my own memorandum.

Q. In exhibit "B" he says, "The average of three large fields in September"—it does not give the date, it just says, "September." He says the cost of crude oil at the Pennsylvania field is ·960 per imperial gallon, and the average for Oklahoma, Texas and California was 3·662 per imperial gallon. That is the differential, is it not?

Mr. Irvine: May I ask a question here? What is meant by "differential"?

Mr. BOTHWELL: This is the way Mr. Ross of the Imperial Oil has given it: he shows the well price of crude oil, the crude oil per imperial gallon, the average price; gasoline per imperial gallon, average price. Differential on gasoline price over the crude price per imperial gallon is the difference between a gallon of crude and a gallon of gas.

Mr. GANONG: When you speak of crude oil refined, you mean gasoline?

Mr. BOTHWELL: Yes.

By Mr. Bothwell:

Q. In the table that is given here at page 112 of the Proceedings, they have used the well price of crude oil all the way through, and those are the figures that you were giving us, except that you were quoting wine gallons.—A. I believe the differential includes all pipe line charges or transportation to the refinery. It is a convenient differential; it means very little in itself as an absolute quantity. It has no bearing or throws no light on what the actual cost of refining is.

Q. Your investigations, up to the time of sending out this letter on the 23rd of October, 1930, disclosed that the differential as between the mid-continent field and the Pennsylvania field was about 3 cents per gallon?—A. No less than that, except in Pennsylvania.

Q. No less than that?—A. No.

Q. That was the basis upon which you fixed the price?—A. Yes.

Q. Then, your next letter maintains that price. Then, on the 24th of February you sent out your Appraisers' Bulletin No. 3686. You fixed a price there at Pennsylvania, New York and district, which includes Atlantic seaboard, at 8·119 cents per wine gallon; Toledo, Detroit, Cleveland and district, 8·76; Chicago and district, 7·66 cents per wine gallon. What field does that come under?—A. That is a refining centre, not a field at all.

Q. What particular crude was being used in that refining field?—A. Likely mid-continent. It might be Montana, but likely mid-continent at Toledo.

Q. How did you arrive at that price, 8·76 cents per wine gallon for Toledo, Detroit, Cleveland and district?—A. All gasoline and all products are sold, based on mid-continent field. For instance, a purchaser will order gasoline from east Chicago. It will be quoted him on the basis of shipment from mid-continent field, but actually they ship from east Chicago. He will pay the actual freight, but his freight was really predicated on mid-continent—his price was predicated on mid-continent. The result is therefore based on the differentials of gasoline between the two costs. The result is approximately, I think, the difference between the amount realized from east Chicago by the producer, and the amount that would have been realized in the mid-continent field, which is something approximating a transportation differential.

By Mr. Arthurs:

Q. And handling costs?—A. Yes.

Q. That constitutes the difference mentioned by you?—A. Yes, that is roughly the method of marketing gasoline.

By Mr. Bothwell:

Q. I do not know that that statement is correct, according to the evidence we have here. According to the evidence we have here, all of the gasoline prices in this country are based on mid-continent field prices, plus freight to any part of Canada that it goes to.—A. That is correct.

By Mr. Arthurs:

Q. The difference between the cost in the field and the cost in refining is the differential?—A. Yes; in those values we really build up to those differentials, so that those values represent the same values when shipped from this point as they would if the gas were delivered from the mid-continent field.

By Mr. Bothwell:

Q. Well, that price at Toledo, Detroit, Cleveland and district— I still do not understand how you arrived at that 8.333 cents. It does not seem to be the price, as near as I can get it.—A. It would be the posted price of crude oil in group 3, the mid-continent field, plus the differentials which had been established for refining, plus the transportation differential in between Toledo and mid-continent.

Q. Can you just give us those figures as to how it is arrived at. I think possibly we could understand it better if we had the actual figures. This was the bulletin of the 7th November. I was giving you two separate figures. I am sorry, this sheet had been turned over, and we were looking at a different bulletin from the one I was examining you on, the one of February 24th, 1931. The price in that bulletin was 8.76 cents per wine gallon. That is the figure I should like to follow through.—A. I fear I have not those differentials here with me. I could explain how they were arrived at. I can send down for them.

Q. Yes. What we would like to get, Mr. Richards, are the actual figures that entered into this computation.—A. Our figures were taken from transportation returns—

By Mr. Donnelly:

Q. Take for example,—

Mr. BOTHWELL: Let him finish.

The CHAIRMAN: Let the witness finish, please.

The WITNESS: Our figures were taken from transportation data, which we had checked, showing the rates from those particular points given in the bulletin, as compared with the group No. 3, and they were, as I said, differentials.

Q. I know those rates; as far as the freight rates are concerned they were permanent rates, but the price of crude had varied so frequently during 1931, that I would like to know, and I think all of the committee would like to know, just how those prices set out in your bulletins are actually arrived at.—A. Every factor in those bulletins was the same, except the posted price of crude in the mid-continent field; and we changed those bulletins from time to time when crude oil varied. All other factors in the bulletins were the same.

By Mr. Donnelly:

Q. You did not take into account gasoline at all?—A. No.

Q. Just crude oil?—A. Yes.

By Mr. Bothwell:

Q. If we can find out how that original figure was arrived at, then we can check your bulletins on the variation in the price of crude. Until we know the actual figures that go into that original price, it is pretty hard for us to understand it.—A. I do not seem to have those two particular rates.

Q. Can you obtain those for us?—A. Yes.

Q. If you could just take that first bulletin of the 24th February, 1931, and give us all of the details in connection with the various fields as to how the prices were arrived at—A. Yes. What I can obtain would be the rate from the mid-continent field to a typical market.

By Mr. Donnelly:

Q. That would be of gasoline, not crude oil. You are now going into the gasoline end of it. You started crude oil, and jumped to gasoline.—A. Yes, but really we are dealing with the value of gasoline, and as I understand it, it was on the value of gasoline that those points are made, so as to effect the same delivery price in some controlling market.

Q. You take a typical case. Take the case of west Texas on February 24, 1931, which is the first date you take, the price there was 3.635, and the freight from Chicago is 2.44, which added together make a total of 6.08. What I want to know is how you get 7.66?—A. The posted price of gasoline in the mid-continent field plus the freight to some controlling market.

Q. That is, the Chicago market?—A. Well, it might be.

Q. I took the Chicago case.—A. The price from any refining point is more by the amount of the differential.

By Mr. Bothwell:

Q. It would not be very difficult for you, Mr. Richards, to take those bulletins and give us the actual figures that enter into it?—A. Not at all.

Q. That is, the particular prices that go into them?—A. No, it would not.

By the Chairman:

Q. Can you send for them this morning and get them here?—A. Would you like to have them this morning?

Mr. BOTHWELL: You may send them to Mr. Fraser, and they will be incorporated in the record.

Mr. SMOKE: So long as we have them in the record, it will be all right.

The CHAIRMAN: It will go in the record.

By Mr. Bothwell:

Q. Now, in Montana and district you fix a price also for import purposes. Is there any distress gas in Montana, so far as you know?—A. I have no means of knowing that. The Montana price is made up on exactly the same principle and the same method as the other prices.

Q. It was made up without regard to the price at which the Montana refineries were selling gas in Montana?—A. It would be.

Q. And I presume that would apply to all the prices. They have no regard to the selling price in the field at all.—A. Yes, certainly.

Q. Now, based on gasoline coming from those fields at a price less than what is set out in the bulletin applicable to that particular time, the difference between the price and the price set out in the bulletin is charged as dumping duty?—A. Yes.

Mr. STANLEY: The difference between what?

Mr. BOTHWELL: The difference between the price at which gasoline is sold to a purchaser and the price set out in the bulletin.

By Mr. Bothwell:

Q. You have no figures, I understand, yourself, as to the trend of importations of gasoline into Canada?—A. I have not.

Q. Have you any idea of the amount of dumping duties that have been collected by the department as a result of those bulletins on gasoline?—A. No; there are no separate statistics kept.

Q. No separate statistics kept?—A. That must be arrived at separately from the duty on each entry.

Q. On each entry?—A. Yes.

Q. You mean that has not been done?—A. They are not separated in the statistical returns.

Q. There is no record in the department at all?—A. I understand not.

Q. It would be a matter of going over all your various entries and figuring out every charge sheet?—A. It would.

By Mr. Donnelly:

Q. Do you make a check-up of any company to see if the parent company was in the United States and the subsidiary here, and to see if the parent company are shipping distressed gasoline into Canada and charging the big price to the company evading duty?—A. We have done so, and would do so on any case brought to our attention.

Q. Have you investigated anything of that kind?—A. We have.

Q. Have you found any of them doing that?—A. We have.

Q. Can you tell the committee how many companies you have found doing that?—A. I have no means of doing that.

Q. Are there many, or just one or two?—A. A few.

Q. I beg your pardon?—A. Not many.

Q. Was it a small or large company?—A. A small one; they have been small companies.

Q. Just small companies. Are they oil companies or individuals?—A. I have no means of knowing whether—

Q. I mean to say— —A. They are incorporated here, and therefore they are companies.

Q. I understand that. But what I am asking you, were any of those companies any of the well recognized oil companies, or just some small concern? —A. There are a number of cases under investigation now.

By Mr. Arthurs:

Q. Did it concern any of the companies that have been prominent in this investigation, without mentioning any company. Did it concern any of those companies?—A. Well, according to my understanding of it, the companies who have been concerned in the investigation before this committee, have been producers of gasoline, not importers.

Q. As a matter of information, however, has it come to your knowledge that any of those large companies have been importers of refined gasoline other than casing-head gasoline?—A. I have no knowledge of any importations.

Q. As a matter of fact, you say they do not import any except casing-head gasoline?

By Mr. Bothwell:

Q. There is no duty on casing-head gasoline at all when imported by refineries?—A. I believe not.

Mr. Pettit: The British American Oil Company stated they imported 4,000,000 gallons.

Mr. Arthurs: Casing-head gasoline, for blending purposes.

Mr. Pettit: Subject to excise.

Mr. Arthurs: That is all.

By Mr. Bothwell:

Q. Over a period of years, Mr. Richards, in all of the fields in the United States, the differential as between crude oil and gasoline, has been gradually narrowed?—A. The tendency has been downwards.

Q. Before fixing the price of gasoline for import purposes, import charges, did the department make any investigation into the cost of refining in our Canadian refineries?—A. No.

By Mr. Donnelly:

Q. Have you any knowledge of how the differentials have been going?—A. No, I have not.

Q. Don't you think that probably the differential in Canada has been going down as much as in the United States?—A. That would have no bearing on the section of the law under which we were working.

Q. Why not? If their differential has gone down and they are able to manufacture gasoline much cheaper, don't you think it should be the same here as in the United States?—A. The main factor in the judgment based on that differential was the earnings of the refineries in the United States, the country from which the gasoline was exported.

By Mr. Bothwell:

Q. Well, has the department, to your knowledge, examined the financial statements and dissected the financial statements of the different refineries in the United States?—A. No.

Q. Outside of the general statement that they have been losing money?—A. The department has seen published the annual financial statements of a number of United States refineries.

By Mr. Donnelly:

Q. You have not gone into the companies to see how much is watered stock?—A. That is quite impossible with the very meagre staff we have.

By Mr. Bothwell:

Q. The fact generally is this: so far as the department is concerned, it takes the mid-continent field differential as a basis to fix the price?—A. Yes.

Q. For import purposes?—A. Yes; even less than the prevailing mid-continent differential.

Q. They are small fractions anyway.—A. Yes. It shows as a minimum—

By Mr. Donnelly:

Q. Can you give us a sample of one where it was less. I have not been able to find one yet.—A. No, there is nothing; 4·24 was the lowest we had in 1929.

Q. That was in 1929?—A. Yes, in California. The differential did not go below six cents, 5·995.

By Mr. Bothwell:

Q. By an imperial gallon, as this table is worked out, the differential has narrowed from 7·305 cents to 4·357 in California, between 1925 to 1930.—A. I have nothing here after the 15th September, 1930. I can follow that up. We have records.

Q. So that the differential has narrowed in California from 7·305 cents to 4·357 cents per imperial gallon?—A. The figures I have before me indicate the average differential in 1925 was 5·995 or practically 6 cents.

By the Chairman:

Q. In California?—A. In California.

By Mr. Ganong:

Q. That is a wine gallon?—A. This is wine gallon throughout.

The CHAIRMAN: This is an imperial gallon.

By Mr. Bothwell:

Q. In North Texas per imperial gallon, the differential had dropped from 7.458 in 1925 to 3.314 cents on September 15th, 1930.—A. I have not the figures for North Texas, I have Oklahoma, mid continent.

Q. Oklahoma ranged from 7.409 in 1925 to 3.314 on the 15th September 1930.—A. That does not agree with the figures I have.

Q. You are giving wine gallons, and I am giving the imperial gallon.—A. Yes.

Q. Apparently in fixing those prices in October 1930, you followed pretty closely the petition filed by the different oil companies in their application?—A. There was no choice, after checking them up and finding they were correct.

Q. You had no regard at all in fixing those prices, as to whether refineries in Canada were able to produce oil cheaper or not?—A. No, the section of the law does not bring those factors into the matter.

Q. In addition to those differentials, or those prices that were fixed for import purposes, the duty was 2½ cents a gallon?—A. Yes, and the special excise tax.

Q. The old dumping duty that they had only applied where goods were being sold in Canada at a less price than they were being sold in the country of origin.—A. That is correct.

Q. That is generally correct?—A. Yes; the terms of the dumping clause were changed to provide for comparison with other factors, such as those in the section of the act that you were thinking of, and under section 37 and section 43.

Q. Now you are able to dump regardless of what is the fair selling price in the country of origin?—A. Yes.

Q. But actually, under the wording of our act, the selling price in the country of origin would be held?—A. Yes.

By Mr. Donnelly:

Q. In regard to those transactions or prosecutions that you have undertaken, have you any knowledge of any convictions being obtained?—A. Well, what is meant by your question about convictions?

Q. I am talking about a case where a large company in the United States has a subsidiary company in Canada, and this large company in the United States take this distress gasoline and they will bill it out to Canada and they will charge for it the price that you mention here, so that they do not have to pay any dumping duty, and which credit, of course, goes to the parent company, and they distribute it through the subsidiary companies. Now, I understood you to say that you had several of those cases, or prosecutions, and I am asking you now if you ever got a verdict or a conviction?—A. In such cases, the matter would be investigated, and would be reported to the minister for his order, for decision under that special section of the Tariff Act.

Q. Can you tell the committee whether you have ever convicted any company or not?—A. Well, the term "conviction" is hardly a proper one, under that section of the act.

Q. What do you call it when you find a man guilty?—A. The act does not say anything about "guilty".

Q. If you find him guilty, do you fine him?—A. The act says, if a subsidiary or an interested company, by reason of its connection, imports a product or an article and then sells it at a value representing less than the duty paid value, plus certain other factors, which are named therein, the minister may order the application of a special or dumping duty—may authorize, I believe, is a better term.

Q. Have they authorized the application of a dumping duty in certain cases?

Mr. STANLEY: In regard to gasoline only.

By Mr. Donnelly:

Q. Have they ordered the application of a dumping duty in such cases in this connection?—A. Such cases that have been reported have been dealt with by the minister, and he has rendered his decision.

Q. You do not know whether they have been found guilty or not?

Mr. Bothwell: If not, have they been penalized? That may be a better word than guilty.

By Mr. Donnelly:

Q. Have they been made to pay a dumping duty?—A. There have been cases, yes.

By Mr. Bothwell:

Q. Has that been an extensive practice by parent?—A. I should say no.

Mr. Smoke: One lesson would be enough for each company.

By Mr. Donnelly:

Q. There is no other penalty except paying the dumping duty on that shipment.—A. Strictly speaking, the dumping duty is not a penalty.

Q. There is no other penalty?—A. No.

By Mr. Bothwell:

Q. It would appear like a penalty to those people, if they were trying to get away from it.

Mr. Stanley: The witness knows nothing about the relationship between parent companies and subsidiaries. He simply deals with Canadian companies making importations. Is not that correct, Mr. Richards?

The Witness: It would be necessary to establish whether there were connections or not, otherwise that section of the act would not apply.

By Mr. Donnelly:

Q. If there was no connection, it would not apply?—A. No. If there were a connection it could apply, otherwise it could not.

By Mr. Bothwell:

Q. Take the Canadian Oil, for instance. At one time they imported a lot of gasoline, did they not, from a parent company in the United States?—A. I have no knowledge.

Q. Take the Shell Oil Company. Has it a refinery in the United States?—A. I have no means of knowing.

By Mr. Donnelly:

Q. If the Shell were importing 32,000,000 gallons, and they got caught on a shipment of ten or twelve thousand, it would not amount to very much to pay the dumping duty on that?—A. The minister's order would be general.

By Mr. Bothwell:

Q. The statement has been made, I do not know whether there is any truth in it or not, I am inclined to doubt it, that the Shell Oil in selling to the people in Canada ship their goods from the United States, ship their gasoline from the United States at the price set out in your bulletins so that they will not have to pay the dumping duty, but the parent company in the United States derives the benefit.—A. There is no reason why they should not do that.

By Mr. Donnelly:

Q. There is no reason why they should not do that?—A. No.

Q. That is perfectly legitimate?—A. Yes.

Q. If the Shell Oil have a large subsidiary here in Canada, and they want to pay the parent company your prices and bring it in, that is all right?—A. No—

Mr. Bothwell: Let him explain.

By Mr. Donnelly:

Q. Make your statement.—A. My statement is that the Shell Oil Company, as an example, might purchase from its subsidiary.

Q. From its main company?—A. The main company, if you like, in the United States, and pay the full value as fixed by the department.

Q. Pay it where?—A. And then the importation would not be subject to dumping duty.

Mr. Donnelly: That is exactly what I said.

Mr. Stanley: Let me follow that further.

The Witness: The test of the law is the price as paid by the importer to the exporter as compared with a fair market value.

Mr. Stanley: That is correct, Mr. Chairman, but carry it further, provided the parent company in the United States invoices that gasoline at a price in excess of what it is selling at on the market in the United States. That is, the company which imports it into Canada is not allowed to do that, according to the act. The inference I have been gathering is, the parent company may bill it at anything it wishes, and sell it to the company in Canada, and the company in Canada would be avoiding the dumping duty. That is not right, is it?

The Witness: Let me again state, that the application of the dumping duty is a matter of comparison, or the difference between the selling price as between the importer and the exporter, and a fair market value as determined by the department, under the law.

Mr. Stanley: Yes, that is correct.

The Witness: And that solely.

By Mr. Donnelly:

Q. Take this for an example: supposing I go to some refining company down in Pennsylvania which may be selling gasoline there for four cents a gallon, and I add the 3.12 which is the difference between the four cents that I pay, and the value that is placed on by your department, making 7.12, naturally we have to charge you 7.12 cents for it. In addition to that, would you put dumping duty on it?—A. No.

Q. It does not make any difference what I am paying the subsidiary company for it, as long as I put it through at 7.12, there is nothing else can be said?—A. No.

Q. Unknown to you, they may give a gift to the subsidiary company here in Canada?—A. Unless this, Mr. Chairman, that if any importer take a rebate afterwards, he is thereby falsifying his invoices.

Q. Surely, if he can prove it; but he may leave money lying around, and I could put it in my pocket.

Mr. Gagnon: If an American company owns 100 per cent of stock in a Canadian company, he will not rebate the money.

Mr. Donnelly: It is the one company, so it does not make any difference whether the rebate is made or not.

Mr. BOTHWELL: I think that is all, if you can get those statements to show us how the prices in those bulletins are arrived at.

By Mr. Bothwell:

Q. May I ask another question? You say you have not kept any account of the dumping duty that has been applied to gasoline?—A. I understand that there is no separate record kept of dumping duty.

Q. How difficult would it be to get a record of it made up?—A. Very difficult. It might mean the examination of all entries, and the searching of them out from the great bulk of the entries. Why, it would mean a review of all the work in the statistical branch.

By Mr. Arthurs:

Q. But the same regulation applies to everything—A. To everything.

Mr. HOWARD: Who are you going to call next?

The CHAIRMAN: I cannot say. We had called a man for Tuesday, but I just received a telegram from him stating he could not come. I expect there will be a meeting on Tuesday, when we will probably deal with the Turner Valley.

Committee adjourned.

APPENDIX

COPY,

DEPARTMENT OF NATIONAL REVENUE—CUSTOMS DIVISION,

OTTAWA, CANADA, 23 October, 1930.

Collector of National Revenue, Customs Division,

Subject: *Value of Gasoline.*

SIR:—Under the authority of Sub-Section 2 of Section 36 of the Customs Act as amended 22nd of September, 1930, you are instructed to appraise importations of Gasoline from Pennsylvania at a minimum differential of 3 cents per wine gallon over the current crude oil price, F.O.B. refinery.

The present price of crude oil is 5.714 cents per wine gallon, and in accordance with the above the lowest value for duty is 8.714 cents per wine gallon.

Provided, however, that goods shall not be entered at less than their true invoice value.

You will be advised of changes in the above crude oil values.

The provisions of Section 6 of the Customs Tariff Act apply.

Notify outports.

Yours truly,

for Commissioner of Customs.

COPY,

DEPARTMENT OF NATIONAL REVENUE—CUSTOMS DIVISION,

OTTAWA, CANADA, 4 November, 1930.

Collector of National Revenue, Customs Division,

Subject: *Value of Gasoline.*

SIR:—Referring to Departmental letter of the 28th ultimo respecting the value for duty purpose of Gasoline imported from Pennsylvania,—

You are advised that effective the 1st instant the price of Crude Oil was reduced to 5.476 cents per wine gallon, and the lowest value for duty is 8.476 cents per wine gallon.

Provided, however, that goods shall not be entered at less than their true invoice value.

Yours truly,

for Commissioner of Customs.

DEPARTMENT OF NATIONAL REVENUE—CUSTOMS DIVISION,

APPRAISER'S BULLETIN No. 3686

INDEX SUBJECT: GASOLINE FROM THE UNITED STATES

For the guidance of Customs and Excise Officers. Provided, however, that goods shall not be entered at less than their true invoice value.

R. W. BREADNER,
Commissioner of Customs.

Department of National Revenue,
Ottawa, 24th February, 1931.

CURRENT VALUES FOR DUTY—(CLASS B)

File No. 164892.

Under the provisions of Subsection 2 of Section 36 of the Customs Act, you are instructed to appraise importations of Refined Gasoline from various refining points of the United States as follows:—

	Per Wine Gallon cts.
Pennsylvania, New York and district, which includes Atlantic Seaboard	8·119
Toledo, Detroit, Cleveland and district	8·76
Chicago and district	7·66
Minneapolis and district	8·01
Wood River, St. Louis and district	7·26
Mid-Continent district, which includes the States of Oklahoma, Kansas, Part of Missouri, Part of Arkansas and North Texas	5·51
South Texas, Louisiana and district	7·06
Wyoming and district	5·51
Montana and district	8·51

Provided that goods are not to be entered at less than their invoice values, nor less than the fair market value as sold for home consumption. The above prices are based on to-day's prices of Crude Oil in the different fields, and you will be advised of any adjustment to the above prices, due to changes in the price of Crude Oil.

The provisions of Section 6 of the Customs Tariff apply.

APPRAISERS' BULLETIN No. 3696

INDEX SUBJECT: GASOLINE FROM THE UNITED STATES

For the guidance of Customs and Excise Officers. Provided, however, that goods shall not be entered at less than their true invoice value.

R. W. BREADNER,
Commissioner of Customs.

Department of National Revenue,
Ottawa, March 24, 1931.

CURRENT VALUES FOR DUTY—(CLASS B)

File No. 164892. Superseding Appraisers' Bulletin No. 3686.

Under the provisions of Subsection 2 of Section 36 of the Customs Act, you are instructed to appraise importations of Refined Gasoline from various refining points of the United States as follows:—

	Per Wine Gallon cts.
Pennsylvania, New York and district, which includes Atlantic Seaboard......	7·292
Toledo, Detroit, Cleveland and district..........	7·905
Chicago and district..........	6·805
Minneapolis and district..........	7·155
Wood River, St. Louis and district..........	6·405
Mid-Continent district, which included the States of Oklahoma, Kansas, Part of Missouri, Part of Arkansas and North Texas..........	4·655
South Texas, Louisiana and district..........	6·205
Wyoming and district..........	4·655
Montana and district..........	7·655

Provided that goods are not to be entered at less than their invoice values, nor less than the fair market value as sold for home consumption. The above prices are based on to-day's prices of Crude Oil in the different fields, and you will be advised of any adjustment to the above prices, due to changes in the price of Crude Oil.

The provisions of Section 6 of the Customs Tariff apply.

The above prices are effective March 5, 1931.

APPRAISERS' BULLETIN No. 3715

INDEX SUBJECT: GASOLINE FROM THE UNITED STATES

For the guidance of Customs and Excise Officers. Provided, however, that goods shall not be entered at less than their true invoice value.

R. W. BREADNER,
Commissioner of Customs.

Department of National Revenue,
Ottawa, June 5, 1931.

CURRENT VALUES FOR DUTY—(CLASS B)

File No. 164892. Superseding Appraisers' Bulletin No. 3696.

Under the provisions of Subsection 2 of Section 36 of the Customs Act, you are instructed to appraise importations of Refined Gasoline from various refining points of the United States as follows:—

	Per Wine Gallon cts.
Pennsylvania, New York and district, which includes Atlantic Seaboard......	6·672
Toledo, Detroit, Cleveland and district..........	7·285
Chicago and district..........	6·185
Minneapolis and district..........	6·535
Wood River, St. Louis and district..........	5·785
Mid-Continent district, which includes the States of Oklahoma, Kansas, Part of Missouri, Part of Arkansas and North Texas..........	4·035
South Texas, Louisiana and district..........	5·585
Wyoming and district..........	4·035
Montana and district..........	7·035

Provided that goods are not to be entered at less than their invoice values, nor less than the fair market value as sold for home consumption. The above prices are based on to-day's prices of Crude Oil in the different fields, and you will be advised of any adjustment to the above prices, due to changes in the price of Crude Oil.

The provisions of Section 6 of the Customs Tariff apply.

APPRAISERS' BULLETIN No. 3726

INDEX SUBJECT: GASOLINE FROM THE UNITED STATES

For the guidance of Customs and Excise Officers. Provided, however, that goods shall not be entered at less than their true invoice value.

R. W. BREADNER,
Commissioner of Customs.

Department of National Revenue,
Ottawa, July 11, 1931.

CURRENT VALUES FOR DUTY—(CLASS B)

File No. 164892. Superseding Appraisers' Bulletin No. 3715.

Under the provisions of Subsection 2 of Section 36 of the Customs Act, you are instructed to appraise importations of Refined Gasoline from various refining points of the United States as follows:—

	Per Wine Gallon cts.
Pennsylvania, New York and district, which includes Atlantic Seaboard	6·315
Toledo, Detroit, Cleveland and district	6·928
Chicago and district	5·828
Minneapolis and district	6·178
Wood River, St. Louis and district	5·428
Mid-Continent district, which includes the States of Oklahoma, Kansas, Part of Missouri, Part of Arkansas, and North Texas	3·678
South Texas, Louisiana and district	5·228
Wyoming and district	3·678
Montana and district	6·678

Provided that goods are not to be entered at less than their invoice values, nor less than the fair market value as sold for home consumption. The above prices are based on to-day's prices of Crude Oil in the different fields, and you will be advised of any adjustment to the above prices, due to changes in the price of Crude Oil.

The provisions of Section 6 of the Customs Tariff apply.

APPRAISERS' BULLETIN No. 3737

INDEX SUBJECT: GASOLINE FROM THE UNITED STATES

For the guidance of Customs and Excise Officers. Provided, however, that goods shall not be entered at less than their true invoice value.

CHAS. P. BLAIR,
Ass't Commissioner of Customs.

Department of National Revenue,
Ottawa, August 27, 1931.

CURRENT VALUES FOR DUTY—(CLASS B)

File No. 167619. Superseding Appraisers' Bulletin No. 3726.

Under the provisions of Subsection 2 of Section 36 of the Customs Act, you are instructed to appraise importations of Refined Gasoline from various refining points of the United States as follows:—

	Per Wine Gallon cts.
Pennsylvania, New York and district, which includes Atlantic Seaboard......	7·363
Toledo, Detroit, Cleveland and district....	7·976
Chicago and district....	6·876
Minneapolis and district....	7·226
Wood River, St. Louis and district....	6·476
Mid-Continent district, which includes the States of Oklahoma, Kansas, Part of Missouri, Part of Arkansas, and North Texas....	4·726
South Texas, Louisiana and district....	6·276
Wyoming and district....	4·726
Montana and district....	7·726

Provided that goods are not to be entered at less than their invoice values, nor less than the fair market value as sold for home consumption. The above prices are based on to-day's prices of Crude Oil in the different fields, and you will be advised of any adjustment to the above prices, due to change in the price of Crude Oil.

The provisions of Section 6 of the Customs Tariff apply.

APPRAISERS' BULLETIN No. 3766

INDEX SUBJECT: GASOLINE FROM THE UNITED STATES

For the guidance of Customs and Excise Officers. Provided, however, that goods shall not be entered at less than their true invoice value.

CHAS. P. BLAIR,
Ass't Commissioner of Customs.

Department of National Revenue,
Ottawa, November 7, 1931.

CURRENT VALUES FOR DUTY—(CLASS B)

File No. 167619. Superseding Appraisers' Bulletin No. 3737.

GASOLINE FROM UNITED STATES

Under the provisions of Subsection 2 of Section 36 of the Customs Act, you are instructed to appraise importations of Refined Gasoline from various refining points of the United States as follows:—

	Per Wine Gallon cts.
Pennsylvania, New York and district, which includes Atlantic Seaboard......	7·72
Toledo, Detroit, Cleveland and district....	8·333
Chicago and district....	7·233
Minneapolis and district....	7·583
Wood River, St. Louis and district....	6·833
Mid-Continent district, which includes the States of Oklahoma, Kansas, Part of Missouri, Part of Arkansas, and North Texas....	5·083
South Texas, Louisiana and district....	6·633
Wyoming and district....	5·083
Montana and district....	8·083

Provided that goods are not to be entered at less than their invoice values, nor less than the fair market value as sold for home consumption. The above prices are based on to-day's prices of Crude Oil in the different fields, and you will be advised of any adjustment to the above prices, due to change in the price of Crude Oil.

The provisions of Section 6 of the Customs Tariff apply.

Statement Filed by Witness, E. Richards

Question: (As to structure of values in Appraisers' Bulletin 3686.)

Answer: The structure used by the Department was based on the posted price of Mid-Continent Crude Oil, plus the freight charges on Crude from Mid-Continent to the refining area, plus the differential of 3·25 cents per U.S. gallon.

On this basis the prices in Appraisers' Bulletin 3686 are made up as follows:—

Posted price of Mid-Continent 36 B.G. (run of pipe line Crude Oil—95 cents per barrel, or 2·262 cents per U.S. gallon).

—	Toledo	Chicago	Minnea-polis	Wood River	South Texas
Crude Oil	2·26	2·26	2·26	2·26	2·26
Freight from Mid-Continent	3·25	2·15	2·50	1·75	1·55
Differential	3·25	3·25	3·25	3·25	3·25
Value for Duty	8·76	7·66	8·01	7·26	7·06

As Crude Oil in the Wyoming field has the same posted price as Mid-Continent the value of Gasoline from that district was fixed the same as Mid-Continent. The freight rate on Crude Oil from Wyoming to Montana is 3 cents per U.S. gallon, so the value of Gasoline from Montana is 3 cents per gallon over the Wyoming price.

EDW. RICHARDS.

From the Bureau of Statistics

GASOLINE TAX RECEIVED BY PROVINCIAL GOVERNMENTS FOR THEIR FISCAL YEARS ENDED IN 1930 AND 1929

—	1930	1929
	$	$
Prince Edward Island	141,059 30	123,909
Nova Scotia	810,507 63	680,074
New Brunswick	650,808 09	538,692
Quebec	3,972,038 65	3,253,040
Ontario	10,756,835 83	8,497,594
Manitoba	763,833 69	669,781
Saskatchewan	981,907 11	1,299,666
Alberta	1,793,251 69	1,306,627
British Columbia	1,086,346 97	905,394
	20,956,588 96	17,274,777

STATEMENT SHOWING THE IMPORTS OF CRUDE PETROLEUM AND GASOLINE ENTERED FOR CONSUMPTION IN CANADA WITH IMPORT DUTIES COLLECTED DURING THE FISCAL YEAR ENDED MARCH 1931; AND THE PERIOD OF ELEVEN MONTHS FROM APRIL 1st, 1931, TO FEBRUARY 29th, 1932.

Item	Fiscal year 1931			Eleven months ended Feb. 29th, 1932		
	Gal.	Value	Duty collected	Gal.	Value	Duty collected
		$	$		$	$
Oil, imported by miners, or mining companies or concerns, for use in the concentration of ores of metal in their own concentrating establishments	154,770	62,799	Free	112,141	56,921	Free
Crude petroleum, gas oils, other than naphtha, benzine, and gasoline, lighter than ·8235 but not less than ·775 specific gravity at 60 degrees temperature	506,787	54,978	7,601 84	79,212	3,401	1,187 42
Crude petroleum in its natural state, ·7900 specific gravity or heavier at 60 degrees temperature, when imported by oil refiners, to be refined in their own factories	986,604,260	35,752,622	Free	946,731,622	20,328,568	Free
Crude petroleum not in its natural state, when imported by oil refiners to be refined in their own factories ·725 to ·770 sp. grav. and ·790 sp. grav. or heavier	7,780,658	467,791	Free	637,009	42,894	3,185 05
Petroleum (not including crude petroleum imported to be refined or illuminating or lubricating oils) ·8235 specific gravity or heavier at 60 degrees temperature (fuel oil)	61,896,977	2,240,276	309,485 30	48,249,799	1,617,703	241,249 69
Fuel, oil, ex-warehoused for ship's stores	33,799,370	875,743	Free	32,526,514	828,541	Free
Gasoline under ·725 sp.g. at 60 degrees temperature (to Sept. 17th, 1930)	74,546,187	7,562,938	Free			
Gasoline, ·725 sp.g. and heavier but not heavier than ·770 sp.g. at 60 degrees temperature (to Sept. 17th, 1930)	45,621,872	5,169,058	456,218 72			
Gasoline lighter than ·8235 sp.g. at 60 degrees temperature (from Sept. 17th, 1930)	21,843,872	2,276,617	546,097 92	78,959,193	7,046,528	1,973,977 19
Natural casinghead compression or absorption gasoline, lighter than ·6690 sp.g. imported by distillers of petroleum for blending with other gasoline distilled in Canada (from Sept. 17, 1930)	14,793,714	1,182,165	Free	28,466,373	1,846,503	Free

SESSION 1932

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

TUESDAY, APRIL 12, 1932

No. 9

Reference.—Price of Gasoline

WITNESS:

O. B. Hopkins, Geologist, Imperial Oil, Ltd.

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1932

MINUTES OF PROCEEDINGS

House of Commons,
Tuesday, April 12, 1932.

The meeting came to order at four o'clock, Mr. Matthews presiding.

Members present: Messrs. Matthews, Donnelly, Pettit, Smoke, Ganong, Spencer, Stanley.

Mr. O. B. Hopkins of the Geological Department of Imperial Oil, Limited, was called and examined.

Witness retired.

The committee adjourned till Wednesday, April 13th, at four p.m.

A. A. FRASER,
Clerk of Committee.

MINUTES OF EVIDENCE

House of Commons,
Tuesday, April 12, 1932.

The Select Standing Committee on Banking and Commerce met at four o'clock, Mr. Matthews presiding.

The Chairman: Gentlemen, the witness at this meeting of the committee is Mr. O. B. Hopkins, geologist. Mr. Hopkins is in charge of the geological department of the Imperial Oil, and is prepared to give evidence in regard to operations in the Turner Valley. Mr. Hopkins has recently given evidence before the committee of the legislature in Edmonton.

O. B. Hopkins, called and sworn.

By the Chairman:

Q. I have correctly stated your position, have I not? You are in charge of the geological department of the Imperial Oil Company?—A. Yes.

Q. How long have you been in charge of that department?—A. Since 1919.

Q. And has your work been chiefly in western Canada?—A. Only partly in western Canada. I have charge of the work also in Peru and Colombia, South America.

Q. How long have you been in western Canada?—A. First in 1919, and various years since then, practically every year since then.

Q. Have you had under your direction the operations of the Imperial Oil Company in Turner Valley?—A. Geological exploration work, yes.

Q. With the geology of the district and the exploration work you are familiar?—A. Yes.

The Chairman: Do you want to go on with the questions, Mr. Bothwell?

Mr. Bothwell: I think possibly the idea in the different questions of Dr. Stanley was as to what the situation is in the Turner Valley field, and why more gasoline is not being produced from the Turner Valley; and also I imagine Dr. Stanley had in mind something about the rumours of control by Imperial Oil of companies there, who are subject to the dictates of the Imperial Oil Company. I think that was the idea he had in mind in having somebody come here to elucidate the matter.

The Chairman: We have another witness coming to-morrow, a gentleman from Calgary, who will be able to give evidence from the standpoint of companies other than the Imperial Oil. His name is Mr. Price, and he is coming in the place of Mr. Mayland, who was invited by the committee, but was too ill to come. Mr. Mayland suggested Mr. Price. He will be here to-morrow, so between the two witnesses we should have a pretty fair picture of conditions in Turner Valley.

Mr. Bothwell: You do not remember the date on which Mr. Stanley asked his questions?

The Clerk: I think it was in the proceedings of the fourth meeting.

Mr. Bothwell (Quoting Mr. Stanley):

> Before Mr. McCloskey starts, may I make a request. The Turner Valley situation in the province of Alberta is a very important one, and I was wanting to ask Mr. McCloskey or some other representative of the

Imperial Oil to make a statement to the committee either to-day or at a later date, in regard to the whole Turner Valley situation, particularly as it relates to the cost of gasoline to the consumer in the province of Alberta. I am not particular that it be done to-day, so long as that information is given, I am content.

It was the day before that when Mr. Ross was in the box that Dr. Stanley referred to it.

Mr. PETTIT: All the witness can testify to is the potentialities in the field from a geological standpoint?

Mr. BOTHWELL: I think it might be well to have Mr. Hopkins go ahead and give his testimony, and make a statement in connection with the Turner Valley situation generally.

The CHAIRMAN: Yes. You might tell us, Mr. Hopkins, what the scope of the operations has been in the Turner Valley, and what has been produced there by your company and other companies.

The WITNESS: I have here a map of Turner Valley. I suppose you are all familiar with the location of the field. It is southwest of Calgary, by road a distance of 45 miles, by airline a distance of about 30 miles. It is located here (indicating on map). In structure it is a narrow belt that runs north-south between the hills running down like this (indicating); the area marked in blue is generally the productive area. The scale of this map is four inches to a mile. This is a mile scale. The first well, Royalite No. 4, was completed in this position (indicating). This is the first well to discover production in the limestone; but previous to that there had been a small amount of production from overlying formations in several wells along here. The deep production is from what is called dolomite. Royalite No. 4 well was brought in, I believe, in December, 1924. It started active operations in the field, which lead to the drilling of wells in here (indicating) in the Illinois-Alberta area, in this McLeod area, and eventually in the Home district here. It has reached out south until we have a well as far south as Merland No. 1 (indicating), and as far north as the Foothills No. 1. The distance between those wells is about 14 miles. In the years that the field has produced, it has made in the neighbourhood of 5,000,000 barrels of naphtha, and approximately 400,000,000,000 cubic feet of gas. The maximum production was reached in 1930, when the daily production was approximately 4,800 barrels. To-day the production is around 2,400 barrels, but with that production, the wells are not operating to their full capacity.

By Mr. Bothwell:

Q. Why?—A. One reason for their not operating at full capacity is that the wells operate more efficiently, at a greater efficiency, at a high back pressure, which limits the flow of gas and also limits the flow of naphtha; but makes the ratio of naphtha to gas, larger than it is the case with lesser back pressures. I can illustrate this from some data I have here.

Q. What do you mean by "back pressure"? I do not know what you mean by that expression.—A. The pressure at the well head, when the well is closed in, is called the rock pressure, or closed-in pressure. As the well is opened the pressure is relieved as the gas flow is increased. The pressure at which the well is operated is called the back pressure. The back pressure is the working pressure, the pressure at which the wells operate. This is ordinarily about two-thirds of that, or about 1,200 pounds at the well head. Now, the Merland well at 1,200 pounds pressure produces one barrel of naphtha with 43,500 cubic feet of gas. At 1,500 pounds back pressure, it produces one barrel of naphtha with 29,300 cubic feet of gas; at 1,750 pounds back pressure, it produces one barrel of naphtha with 18,600 cubic feet of gas, showing that the higher the back pressure, the lower the gas-naphtha ration, or smaller the number of cubic feet of gas that is required to produce one barrel of oil. And that is generally true for most of the wells in the field with the exception of some of the small ones, which are extremely inefficient, to begin with, and the back pressure has an opposite effect, sometimes.

By Mr. Pettit:

Q. Wet gas?—A. The wetness of the gas varies with the life of the well. When the wells are new, generally speaking, the gas is much wetter. As they get older, the gas gets drier. For instance, in the Home section, which is here in the south central part of the field, the original content of the gas was three times what it is to-day. In other words, each thousand feet of gas had three times as much naphtha in it originally as it has to-day.

Q. Over what period of time has that been operated?—A. About three years.

By Mr. Bothwell:

Q. You say that your production here is only about half what it was a year ago?—A. Half of what it was about a year ago, yes.

Q. Well, I am not clear yet as to the reason for that. Is it so you will not waste the gas?—A. Well, there are, generally speaking, two reasons. One reason is to conserve the gas in the field, and the other is because the market outlet for the naphtha is not sufficient to take care of all of the field's production.

By Mr. Ganong:

Q. Production is limited by the market?—A. Limited by the market. I believe, quoting from memory, the figures that I saw for the naphtha in storage in the field at the end of February, was about 47,000 barrels. It is being sold in the field generally at about ten cents a gallon, plus tax, the tax being five cents.

By Mr. Donnelly:

Q. Provincial tax?—A. I think five cents, and they get a drawback of four cents.

Q. The farmer does?—A. I think it is five, and a drawback of four cents.

By Mr. Bothwell:

Q. Has anybody used this as it was taken from the well? Is it used by anybody as it is taken from the well as fuel for tractors?—A. Yes, extensively. The farmers take it directly from the well, and to a certain extent, dealers also.

By Mr. Donnelly:

Q. That might be called crude, might it not?—A. It is what we call crude naphtha. It has a gravity of about 72 to 73, which is higher than the gravity of commercial gasoline, which has a gravity of 58 to 60. It is a very volatile fuel. It is not a very efficient fuel. It is better in the winter time than it is in the summer. Loss by evaporation is very high in warm weather. According to the provincial figures, there were some 89,559 barrels of naphtha sold directly from the Turner Valley to the user, to the farmer or other parties.

Q. That is what we call "skunk gas"?—A. It smells very badly.

By Mr. Pettit:

Q. Is naphtha used for blending purposes?—A. Yes, it is. We use it for blending with heavier naphtha to make a proper gasoline.

By Mr. Bothwell:

Q. In your Calgary refinery?—A. Yes, sir, and some has been shipped to Regina.

Q. What proportion of the naphtha you produce here, goes to your refinery in either Calgary or Regina. I want to get at how much is sold as crude naphtha, and how much is used.—A. It would be about four-fifths, I should think, used by the various refineries. There are three refineries in Calgary.

By Mr. Smoke:

Q. Then one-fifth is sold just as it comes from the well?—A. Yes. It has not been sold as rapidly as it has been produced, with the result that during the past year stocks have been piled up in the field to a large extent.

By Mr. Bothwell:

Q. Do you know whether any of that crude naphtha is shipped out of the province into other provinces for use in tractors?—A. I think there have been a few shipments into Saskatchewan; but I believe there were no repeat orders; it was not very satisfactory.

By Mr. Donnelly:

Q. What is the reason for that; can you tell me? It is being used.—A. It is being used.

By Mr. Bothwell:

Q. You say there are no repeat orders, and that it is not very satisfactory. I do not understand that.—A. Well, I think I will put it this way: if the farmer can get it very cheaply, as he can if he lives nearby, he can find some economy in it, or thinks he has some economy in it. If he has to pay railroad transportation, it won't compete with real gasoline, or kerosene or distillates that they often use for tractor fuel.

Q. What is the difference between this crude naphtha that you speak of, and the distillates that are used in tractors?—A. Well, the distillate is composed of crude naphtha, and various fractions of crude oil. The lightness of the naphtha gives it good starting qualities, but it does not give it much power. Power comes really from heavier fractions. Volatility is of value only to make the engine start easily.

Q. Where does this distillate come from; does it come from the refinery?—A. It comes from the refinery. The stocks used in making distillate come from the refining of crude.

Q. Is it a matter, in the making of distillates, the mixing of naphtha with a part of your—I don't know what it is—heavier oils which you referred to?—A. Well, you take crude and by distilling it, you break it up into different fractions, lighter first, then heavier and heavier, until you get down to asphalt, which would be left in the stills if it were not cracked.

Q. In your skimming process in the refinery, you take off a certain proportion of gasoline?—A. Yes.

Q. That which would be left is what you use for mixing with this naphtha in order to make distillate?—A. Some fraction of what is left.

By Mr. Donnelly:

Q. There is a cracking plant at Calgary?—A. Yes.

Q. That goes through there the same as any other?—A. Yes.

By Mr. Spencer:

Q. Different grades of distillate, I suppose?—A. Yes.

By Mr. Donnelly:

Q. Tell me this, when the farmers come there for this "skunk gas" or naphtha, you do not ask them whether they are from Saskatchewan or Alberta?—A. No.

Q. You don't know how much is taken out in tank wagons into Saskatchewan?—A. No, I cannot say for certain; but we know generally where the farmers come from, who come and haul it away. The only shipments I know of to Saskatchewan have been by rail.

Q. I know they come in tank wagons and take it out.—A. I see.

Q. I know the district they get it from. What I want to know is this. If this is crude naphtha, is there any provincial tax on crude naphtha?—A. The provincial tax is the same as on gasoline.

Q. It is the same?—A. Yes, because it may be used in cars.

Q. That must be only in Alberta, then?—A. Well, it certainly is in Alberta.

Q. You collect the tax?—A. Yes, if we sell it at the well. If sold to refineries, the tax is paid on the finished gasoline when it is sold. If sold to the dealer, the dealer may pay the tax. If it is sold directly to the consumer, the operator in the field has to collect the tax.

Q. What about the man that is out in the country? I know of dealers, for example, who are users of the Imperial Oil, and they take tank wagons to your well in the Turner Valley, and get them filled up with this naphtha and bring it back and sell it to the farmers. Do you collect tax from them, or do they collect the tax from the farmer, or how is it done?—A. If he buys it that way, he would doubtless collect the tax from the man he sells it to, who ultimately uses it.

Q. I do not think there is any tax on that in Saskatchewan. I know men who go from Saskatchewan in there, who are dealers, and who buy this skunk gas, bring it in, and put it in their tanks, instead of using the Imperial Oil gas, because they cannot sell Imperial Oil gas. They are buying this naphtha and putting it in their tanks and selling it to farmers as fuel for their tractors and cars.—A. Of course the situation has been such out there in the past year, that a lot of the farmers, and even men who own trucks in the towns, who are out of work to-day, and who do not count their labour very much, who go out and haul it cheaper than the railroad can haul it—

Q. What percentage of gasoline do you get by the first process, which is called the skimming process? The skimming process is carried on by the refinery in Calgary?—A. Yes, I presume so—

Q. You are not conversant with that?—A. I am not very familiar with the refinery process, but in any oil, even where it is cracked, you distil off what comes off naturally before you crack.

Q. What percentage do you get by this skimming process in the Calgary refinery? Have you any idea?—A. Well, out of Turner Valley naphtha you get about 90 per cent recovery, I believe.

Q. You get about 90 per cent?—A. About 90 per cent recovered. That is of high volatility, but suitable material to be used in making commercial gasoline. A large part of the naphtha discoloured, and it has to be distilled.

Q. Then, 90 per cent would be the same volatility as what you call casing-head gasoline?—A. Not exactly, no. Casing-head gasoline has a gravity of around 80 to 85, where this naphtha has a gravity of 72 to 73.

Q. Would it lose any after it was skimmed off?—A. It would lose a bit in gravity, not very much.

By Mr. Bothwell:

Q. How many producing wells are there in the field in the territory that you mention?—A. About 90 producing wells, some from the limestone and some from the upper horizons. A few wells are producing various types of crude oil.

Q. How many are under the control of the Imperial Oil?—A. Fifty altogether that have been productive, that were drilled by the Imperial Oil. A few of those were crude oil wells, but most of them are limestone wells, producing naphtha.

Q. You are talking of wells owned by the Imperial Oil. There are a number of subsidiary companies of the Imperial Oil. Does that include them too?—A. Yes, all of the wells of subsidiary and contract companies have been drilled.

Q. What was the total output of those wells when they were at the peak, and what is it now?—A. The production for 1930 in the field was 1,364,584 barrels; in 1931 it was 1,372,625 barrels. The Imperial and its subsidiaries and contract companies produced in 1930, 894,031; in 1931, 641,039 barrels. The last monthly production I have here is for the month of February, when the total field production was 76,945 barrels.

Q. Has there been any restriction by the provincial government on producing at those wells?—A. The provincial government has just recently passed a bill looking to the conservation of gas in the field it is expected the field will be reduced to 200,000,000 cubic feet per day within the next thirty days, and within the next three or four months, to probably 100,000,000 cubic feet or less.

Q. That will cut down your production of crude naphtha?—A. Very materially. The present flow of gas is in the neighbourhood of 440,000,000 feet per day.

By Mr. Spencer:

Q. Has a general agreement been arrived at with regard to cutting down the field?—A. Well, the government of Alberta is forcing the restriction of the gas flow, because of the serious wastage that has been going on there during the past years.

By Mr. Stanley:

Q. There has been a commission appointed to arrive at the basis of the regulations?—A. Yes, a committee of three is to be appointed by the government to supervise the restriction of the flow in the field, and to determine what compensation, if any, the operator should have for the restriction of his production.

Q. Have you described altogether the question of Mr. Bothwell as to what you do with the naphtha that goes to the refinery at Calgary from Turner Valley?—A. It is used in making gasoline and distillate.

Q. In what way?—A. It is blended with heavier naphthas to make gasoline, and with heavier—

Q. Explain the process, and why it has to be mixed with heavier naphthas. —A. Well, the naphtha has a gravity of about 72 or 73, which, if put in a tank on a warm day, evaporates very freely, and causes a considerable loss; and besides that, it causes vapour lock and loss of power in your car. It is a very inefficient fuel. It can be used, but inefficiently in a car. In order to make it an efficient fuel, it has to be blended with heavier naphthas to reduce the gravity to around 58.

Q. Where do you get those heavier naphthas?—A. It is made from crude oil, which partly comes from Southern Alberta and Montana.

Q. None from the mid-continent field?—A. So far as I know, there is no mid-continent crude run in the Calgary refinery.

Q. What are the proportions of the mixture?—A. It depends on the weather. In the winter time, in cold weather, they can use a larger percentage of this Turner valley naphtha in making gasoline than they can in the summer time. I think the percentage would probably vary from possibly 40 per cent in the summer time, to possibly 60 per cent in the winter time.

By Mr. Donnelly:

Q. What kind of crude do you get from southern Coutts, on the American side?—A. There is a field, Red Coulee, on the Canadian side, and it is an extension really of the Sunburst field on the Montana side. The old is very much the same, about around 30 gravity.

Q. Around 30?—A. About around 30 gravity.

By Mr. Ganong:

Q. Is it quite expensive to put in as much of that crude as possible to make gasoline?—A. We put in as large a percentage of Turner Valley naphtha as possible and make a good grade of gasoline, in order to consume the product from the field.

By Mr. Donnelly:

Q. Can you get all you want from the Sunburst field in Montana?—A. Yes, there has been a great abundance of crude available there for the past few years.

Mr. STANLEY: Is this witness called to give evidence as to the cost of gasoline at Calgary, and the cost to the consumer at Calgary? Has that figure been given?

The WITNESS: I am sorry, I am not in a position to go into the matter of costs. Mr. McCloskey or Mr. Halverson will be glad to give that information to the committee. All I know about are the operations in the field.

By Mr. Stanley:

Q. Can you tell me just what the daily production of crude naphtha at Turner Valley is?—A. It is about 2,400 barrels per day.

Q. Is that the total possible production of the present wells there?—A. No.

Q. What is the total possible production of the wells there, estimated?—A. Well, in order to—

Q. Take your own wells.—A. In order to produce the maximum amount of naphtha, you have to waste a large amount of gas. In order to operate the wells efficiently, you have to cut down on the production of both gas and naphtha. On anything like efficient operation, it would not be possible to produce a great deal more than is being produced; although by opening up the well and wasting a larger quantity of gas, it would be possible to produce 3,000, and possibly 3,500 barrels for a short time.

By Mr. Donnelly:

Q. Did I understand you to say you are producing now, all that you can market?—A. We are producing now all that we can market.

Q. If you had any more, it would be just a surplus; you could not market it?—A. No.

By Mr. Stanley:

Q. What is your arrangement then, about taking over the production from the various companies. You allow them to give you a certain percentage of their possible production, do you?—A. Yes. We started last July, on account of the crop failure, and bad conditions in the west, to curtail purchases from the field. We curtailed our own production, and curtailed our purchases similiarly from other companies.

Q. What is the difference, beginning last July, or last August; what is the basis upon which you take it now?—A. We started out in August by purchasing and producing from our own wells, 50 per cent of the amount which we had been producing during the previous months. Since that time, other wells have come into production, and the purchases have been reduced below fifty per cent. On the other hand, the wells have declined in their productivity; so that many of the wells are now producing more than 50 per cent of their capacity.

Q. You purchased from independent wells over which you have no control. Are you speaking of all the wells from which you purchase?—A. All wells from which we purchased, and which we operate.

Q. Those who are not a direct subsidiary of yours, have exactly the same contract in regard to the quantity taken?—A. The quantity taken is definitely determined as a percentage of the production of the well, or property, made last July.

Q. What is the price to the producer at the well now?—A. The price at the well varies with the character of the product. For clear naphtha, we pay $3.12 a barrel, or 8.91 cents per gallon; for discoloured naphtha, we pay $2.88 per barrel, or 8.23 cents per gallon.

Q. You say you are paying that? When have you been paying that?—A. Paying it now.

Q. What have you been paying?—A. We have been paying that same price since August 25, 1931.

Q. Prior to that?—A. Prior to that, there have been various price fluctuations.

Q. Let us have some of them.?—A. Well, in March, 1927, we were paying for clear naphtha, $3·948 per barrel, for discoloured naphtha, $3.50 per barrel. On May 1, 1929, we were paying $3·648 for clear naphtha, and $3.20 for discoloured naphtha. On June 12, 1930, we started paying $3.69 for clear naphtha, and $3.45 for discoloured naphtha.

By Mr. Bothwell:

Q. What was your minimum price in those three years?—A. The minimum price was in March, March 14, 1931, and we were paying then $2.74 for clear naphtha, and $2.50 for discoloured naphtha.

By Mr. Stanley:

Q. When was that?—A. That was in March, 1931.

Q. You have not with you now the price of gasoline at the refinery in March, 1931, have you?—A. No, we have not.

Q. We can get that from Mr. McCloskey?—A. Yes.

By Mr. Bothwell:

Q. Did I understand you to say that in your skimming process you got about 90 per cent gasoline from this clear naphtha?—A. No. What I said, I think, was that we got 90 per cent recovery in volume of naphtha.

Q. Well,— —A. No; I was referring, I think, to discoloured naphtha, which has to be distilled in order to get rid of its colour.

Q. What percentage of gasoline would you get out of that discoloured naptha?—A. You get one of the constituents, which, blended with something else, makes gasoline.

Q. I notice a witness named Hagerman, in giving evidence at Regina—Hagerman, by the way, is a member of the Maple Leaf Refinery—he is operating, I suppose with the same kind of crude as you people handle at Coutts, Alberta?—A. Yes.

Q. He says they get 20·09 per cent gasoline, 12·95 per cent distillate, 16·06 per cent stove fuel, and 48·72 per cent fuel oil, with a loss of ·83 per cent?—A. Yes, that is from Sunburst crude. That is from 30 gravity crude oil. We have been discussing naphtha, which has a gravity of 73.

Q. I just have a newspaper report, and it does not say where the crude comes from?—A. It undoubtedly comes from the Sunburst field.

Q. It is American crude, then? Can you give us the production from your refinery of this naphtha? Give us the percentage of those various constituents, or commodities that you would get from this crude naphtha of which you speak?—A. Well, practically all of this clear naphtha and discoloured naphtha is used as one constituent in the making of gasoline.

Q. I see; just gasoline; that is only two?—A. One of the constituents of gasoline, if I may put it that way, the lighter volatile part of gasoline.

Q. You mix with that 60 per cent of other— —A. Yes. That is only an approximation. Mr. McCloskey will give you more accurate information, and just exactly what percentages are eventually mixed in.

By Mr. Ganong:

Q. As a matter of fact, there has been sold gasoline in the city of Vancouver which was called Home gasoline. Would that be crude naphtha, or a mixture of other gasoline?—A. The Home Oil Distributors is a marketer of gasoline. That is the name of the company that makes and sells gasoline in Vancouver.

Q. It does not come from the Home well?—A. No; there is no gasoline from the Turner Valley shipped to the coast; the freight rates are prohibitive.

Q. That is entirely different?—A. It is an entirely different company, not the Turner Valley company at all.

By Mr. Bothwell:

Q. How do you gather that naphtha from those wells scattered along that territory?—A. Well—

Q. Is there a pipe line?—A. Yes, there is a pipe line that runs from this central storage system here (indicating).

Q. To what place?—A. To each one of the wells, all the way up here, (indicating) and all the way down here, and to the storage tanks here, which accumulates it from the pipe lines.

Q. At what places are those storage tanks?—A. Right here in the valley, right here along Sheep Creek (indicating).

By Mr. Donnelly:

Q. There is a pipe line to Calgary?—A. There is a main pipe line which goes over the hills 30 odd miles to Calgary.

Q. What is the cost of collecting it?—A. The cost of gathering and transporting to Calgary is something like 30 to 35 cents a barrel. It depends on the quantity that is actually transported. It is higher when smaller quantities are produced.

By Mr. Pettit:

Q. What about the crude naphtha?—A. Crude oil and crude naphtha are transported through the sames lines. It is batched; that is, pumped through the lines at different times.

By Mr. Bothwell:

Q. You say there was a refinery in the field?—A. In Calgary.

Q. There are three in Calgary?—A. Yes.

Q. There are no other refineries in the field other than what are at Calgary? —A. No. I do not think there is anything in the field that could be dignified with the term "refinery." There are several companies that do a certain amount of washing, to get some of the sulphur out of the naphtha before it is sold. They try to get rid of the sulphur content before it is sold.

Q. What are the three refineries in Calgary?—A. The Imperial Oil refinery, the Regal refinery, and the Bell Refining Company.

Q. This refining company at Coutts, Alberta, the Maple Leaf Company, is that a refining company or a washing company?—A. I do not know. From the account that you read there, I presume it is a real refinery, at least a topping plant.

By Mr. Stanley:

Q. That is quite apparent—A. I have not been down there for years.

By Mr. Spencer:

Q. Can you explain the process of washing gasoline?—A. Well, some of the operators haul the gas, the naphtha, from Turner Valley to Calgary, and before they start for Calgary, they put in some soda or some chemical, which swishes about as the truck hauls the naphtha to Calgary, and when it gets there, it has taken out at least part of the sulphur content of the naphtha. It is then filtered and sold.

By Mr. Stanley:

Q. Can you give us any information as to the amount of crude oil in the valley?—A. A small amount of crude oil has been produced. It amounts now to about 150 barrels.

Q. Do you get it all?—A. Yes, I think we do.

Q. That is a day?—A. It is 150 barrels a day.

Q. What would you pay for that?—A. The price of crude oil varies with the gravity. For 50 gravity and higher, we pay $2.65 a barrel; for 45 to 49.9 gravity, we pay $2.08, and for a gravity of 40 to 44.9 we pay $1.50.

By Mr. Donnelly:

Q. Is a gravity of 40 the lowest type of crude?—A. Yes, sir.

By Mr. Stanley:

Q. Do you get crude oil from Red Coulee?—A. Yes.

Q. What do you pay there?—A. The same price as paid in the Sweet Grass field. I belive the present price is $1.05 cents a barrel.

Q. What is the quality there?—A. Approximately a 30 gravity crude.

Q. That is the cost to the refinery of crude oil that is shipped in from Montana?—A. Yes, the same price.

Q. In Montana?—A. The same price in Montana as at Red Coulee.

Q. You cannot tell me what it costs for blending in Calgary?—A. No; Mr. McCloskey could give you that figure.

Q. It comes in by tank?—A. By rail.

By Mr. Donnelly:

Q. By tank car?—A. Yes.

Q. Your price for crude oil in Turney Valley is governed by what you pay for it in the Sunburst field, practically speaking?—A. I presume it is based on the relative value, with due allowance being given for its quality.

By Mr. Stanley:

Q. Now, farmers getting naphtha at Turner Valley, from whom do they buy?—A. They buy it from any operator in Turner Valley.

Q. At what price do you sell the crude to the farmer?—A. We sell naphtha to the farmer at ten cents a gallon.

Q. By the barrel?—A. By the barrel or tank wagon.

Q. It is the same?—A. Yes.

Mr. BOTHWELL: Plus provincial tax.

Mr. STANLEY: Yes, I know.

By Mr. Stanley:

Q. That is in the valley.—A. Yes.

Q. Now, you have nothing to do with the price structure of gasoline refined and sent out from the refinery?—A. No, I have nothing to do with that.

Q. I presume we shall take that up, Mr. Bothwell, because that is one of the main features, Mr. Chairman, and is of the most interest to the consumer in Alberta, to have information in regard to the price structure of gasoline sold in Alberta?—A. Yes.

Q. And its relation to the crude naphtha and the crude produced in the valley in Southern Alberta?—A. I have some figures here on the investment of the company in its exploratory and producing operations in the west, if you are interested in those as bearing on the price of producing naphtha there.

Q. It would be interesting to have those on the record.—A. The Imperial Oil had a net investment as of January 1, 1930, of $11,122,741.90.

By Mr. Bothwell:

Q. As of what date?—A. January 1, 1930.

Q. That is in Turner Valley?—A. In its producing operations in the west, including Turner Valley.

Q. It has nothing to do with the refinery?—A. No, sir.

Q. Nor to the pipe lines?—A. It has to do with the pipe line to Calgary, yes.

Q. The pipe line to Calgary?—A. That belongs to the field.

By Mr. Stanley:

Q. Who owns the pipe line?—A. The Royalite Oil Company.

Q. It is a direct asset of the Royalite?—A. Yes.

Q. Yes.—A. In addition to the eleven millions of the Imperial Oil, the Royalite has invested from earnings on the same day, $2,533,462.51, making a total investment of $13,656,204.41. The total revenues, or rather the total return received from this investment in Turner Valley to the end of 1930 by the Imperial Oil Company amounted to $667,734, representing its interest on dividends paid on the Royalite Oil Company between the years 1923 and 1930.

Q. I did not get that. Is that the total revenue from the subsidiary companies, or the Royalite?—A. The Royalite is the only company that has paid dividends.

By Mr. Donnelly:

Q. What about the Foothills? Is that one of your companies?—A. Yes; it has never paid a dividend.

By Mr. Bothwell:

Q. Now, in dealing with your investment, the investment of the Imperial Oil and the Royalite investment, it is made up largely by development work in test holes and that sort of thing?—A. It is made up in a large part of money expended in drilling wells. The company has drilled altogether in Turner Valley, 58 wells at an estimated cost of about 10½ million dollars.

By Mr. Spencer:

Q. The total cost?—A. The total cost of 10½ million dollars.

By Mr. Bothwell:

Q. How many of those 58 wells were producers?—A. Fifty of them have produced more or less oil or naphtha.

By Mr. Spencer:

Q. What is the average depth you go in the Turner Valley?—A. The depth varies from about 3,700 to 6,000 feet. The average cost of 36 wells, which I have in front of me here—no, the total cost of the 36 wells in the Turner Valley was $7,632,797.77, or an average of $212,166 per well.

By Mr. Pettit:

Q. How many wells of those 56 are producing wells in use?—A. There were 50 wells that have produced. Offhand I should say, about 45 of them are producing to-day.

Mr. STANLEY: Now, Mr. Chairman, the witness can go on and tell in regard to the contract which the Royalite has with the Gas company, and its possibility as an asset to the company. That must not be overlooked. You are telling us of wells. Of course, you have something from which there is considerable revenue as well.

The WITNESS: Yes. The one reason that the Royalite has paid dividends while the other companies have not, is the fact that it has a contract to sell gas to the Canadian Western Natural Gas Light Heat and Power Company. This contract was entenred into in December, 1931; and they have supplied varying but increasing quantities since that date. The company has drilled a number of wells to produce the gas with which to supply that contract, and has expended about $1,000,000 for gas gathering and scrubbing equipment to handle the gas which is delivered at the field to the pipe line of the Canadian Western Company.

Q. Is that included in your other figures?—A. That is included in the figures I gave for the investment in Turner Valley, yes sir.

By Mr. Spencer:

Q. What does it cost to get oil from the Turner Valley field to Calgary through the pipe lines?

Mr. BOTHWELL: Thirty-five cents.

By Mr. Stanley:

Q. Now, this gas which you are selling under the contract, all comes from the Royalite wells?—A. Practically all from the Royalite wells. There has been a small amount at odd times in the winter when there was a heavy demand, taken from wells of other companies, but I should think 99 per cent of the total gas delivered in the past years has been from the Royalite's own wells.

Q. I think in fairness to your company you ought to tell the offer which they have made in regard to independents, and the supply of gas, although it is not accepted yet.—A. Well, the government in Alberta has been active in its efforts to bring about conservation of gas in Turner Valley, starting at the end of the last rate hearing, which was last June, I believe, June of 1931. They employed a man named Fisher, F. P. Fisher, to work out a scheme whereby the gas could be conserved with the least amount of loss to the operators. The first plan was that the oil companies in the Turner Valley would be compensated for their loss of naphtha revenue by an increase in the price of gas, which he set at four cents per thousand. The Royalite has a contract to deliver gas to the gas company at 7¾ cents per thousand. It costs about 3¾ cents to scrub the gas, exclusive of the cost of drilling the wells and producing the gas. On the actual operation they have made about four cents per thousand. Fisher's plan was to obtain an additional four cents per thousand, and distribute all the proceeds from the gas equally among the various operators there, after having paid the Royalite for its physical equipment for handling the gas, and something for its contracts which it has with the Canadian Gas Company, and also with the Imperial Oil Refineries, to supply them with gas.

I order to bring about a conservation of gas, the Royalite recently subscribed to a plan called the C and E plan for the consolidation of all the various properties, whos operators wanted to join in the consolidation, whereby they were to share in the gas business. That scheme was opposed by a few of the operators, and is in abeyance at the present time, pending the testing which is going to be undertaken in the next month to determine the productive capacity of the different wells and therefore their participation in this plan.

Q. What is the estimated life of the gas field?—A. Considerable evidence was submitted at the meeting in Edmonton as to the remaining reserves of gas in the Turner Valley field. Those varied from about 300,000,000,000 to 500,000,000,000 cubic feet. At the present rate of wastage the field will last only a relatively few years.

By Mr. Pettit:

Q. What do you mean by "a few years"?—A. Well, the government estimated the volume of gas produced during the year 1931 as 169,280,000,000 cubic feet, which is from a half to one third of the total remaining gas reserves at the field. It would not be safe to say, however, that the field would be entirely exhausted under the rate of production in the next three years, because as the pressure goes down, the volume of gas largely will decrease, and the field will have a longer life. That would be anticipated. The total volume of gas in Turner Valley is believed to be sufficient to last the city of Calgary for 15 or 20 years if it is conserved to 100 million cubic feet immediately, and to a lesser amount, reducing the amount gradually to the actual amount that could be sold. The total volume of gas sold at the Turner Valley field is in the neighbourhood of 10 billion cubic feet a year. If there are 500 billion cubic feet of gas in the field, there would be sufficient to last 50 years if it were conserved and drawn out as it was used. But in the past years there has been only from one-tenth to one-fifteenth of the total output of gas produced that has actually been put to use, other than for producing naphtha.

By Mr. Stanley:

Q. I thought it was fair to place the whole investment of your company in the field on the record. But we have not only the future production of gasoline to consider, there are gasoline contracts in connection with the disposal of the gas for some considerable number of years to come. I am not asking just what that means in the way of profit or revenue in the future, but it is an asset.—A. Well now, up to the present we have paid a gas production tax of a quarter of a cent a thousand. According to a recent law enacted in Alberta, we are required to pay a cent a thousand, which takes away three quarters of a cent more of the profit than has been taken away previously.

By Mr. Spencer:

Q. Every oil company realizes that something has to be done to conserve the field?—A. Yes; it has become more and more apparent, as the gas becomes dry, the waste becomes greater, because you are getting less and less naphtha with the gas.

By Mr. Stanley:

Q. That tax is one of the pleasures you have for being a citizen of Alberta as well as an institution. We all enjoy those privileges.

By Mr. Bothwell:

Q. The statement has been made that the Imperial Oil Company has through some of its subsidiary companies, drilling offset wells to other companies producing wells. Do you know anything of that, or whether there is any truth in it? —A. That is a customary practice in all oil fields. When you have a lease offsetting a producing well, you have to drill an offset well or give up your lease; and whereas that has not been rigidly enforced in the Turner Valley in view of the fact that leases are often adjacent to each other—

Q. What do you mean by an offset well?—A. Well, if you have a property boundary, and one company drills on one side of the line, the company owning a lease on the opposite side is obligated, according to the rules of the game, to drill an offset to it.

By Mr. Donnelly:

Q. Otherwise they would drain that property?—A. Otherwise they would drain that property.

By Mr. Stanley:

Q. You are not sure it does not drain the other fellow's property anyway. —A. Well—

Q. That is what it means; is not that right?—A. Yes.

By Mr. Bothwell:

Q. Now in that whole Turner Valley field, the Imperial Oil handles most of the crude naphtha.—A. A greater part of it, yes.

Q. Is there any truth in the statement that if producing wells sell direct to the farmers, the Imperial Oil will not take their crude?—A. No, there is no truth in that. What probably led up to that statement is this; in prorating our purchases, we prorated our own wells along with the other man's wells, and if the other company is selling to farmers, we deduct the amount that he sells direct to the farmer from the amount we purchase from him, and so a proper balance is kept between the actual takings from the two wells.

Q. In having your own producing wells, that is, for Imperial or your subsidiaries, and those wells being able to produce more than you can use and find a market for, why do you take from those independent wells at all?—A. Well, during the past year we could have produced all the naphtha from our own wells that we could have sold; but nevertheless it would have been unfair to the other operators and while we are not bound to make purchases from them we have actually done so.

Q. Are you compelled in any way by any law of the Province of Alberta? —A. No, sir.

Q. So there is no definite regulation in connection with it except what you have agreed to do yourselves?—A. No, there is no definite regulation, but these companies had been delivering to us when we consumed all the naphtha that was being produced, so when we cut down our purchases from them we cut down the production from our own wells correspondingly.

Q. All the crude that you use in your refinery in Calgary comes either from Alberta or from Montana?—A. I think so.

Q. And how much do you ship to the Regina refineries?—A. Of Turner Valley naphtha?

Q. Yes.—A. A year or so ago there was a considerable amount shipped to Regina when the field production was 4,500 or 4,800 barrels a day; but recently I think there has been very little shipped to Regina. Any recent shipments consisted of the lighter ends from the Calgary refinery—the volatile fractions which were not needed there in the making of gasoline. The surplus only was shipped to Regina. It was only a small amount.

Q. Would it not be cheaper for your Regina refinery to get their naphtha from Calgary rather than from the mid-continent field?—A. No, the freight rate, as I understand it, is lower from the mid-continent field than it is from Calgary.

Q. You have not got the freight rates at all, have you?—A. No, I have not, but I do know this, that when we had to ship naphtha in considerable quantity to Regina, in order to dispose of it, we had to cut the price in Turner Valley in order to meet competition there.

Q. That is possibly the reason then that the Regina refinery is using mid-continent crude, because they are able to purchase it cheaper, instead of the difference in freight?—A. Well, I would rather let Mr. McCloskey answer that. He knows more about that phase of it than I do.

By Mr. Stanley:

Q. In regard to the crude from Northern Alberta, does not all that go to Calgary?—A. You refer to Wainwright and Ribstone?

Q. Yes.—A. No, there is practically no gasoline in the crude from there.

By Mr. Spencer:

Q. There is a refinery at Wainwright?—A. There was one there, but I do not think it is active at the present time.

By Mr. Bothwell:

Q. Is there any drilling being done in the field now?—A. Practically none. There are one or two wells that are being completed. They were started during the past year. There is no new drilling being undertaken there this year.

By Mr. Pettit:

Q. Has your company discovered any fields farther north?—A. No, sir. The company had drilled in the west, up to December 31st, 1931, a total of ninety-seven wells; fifty-eight of which were in Turner Valley; three were in Saskatchewan; sixteen were in the Plains area of Alberta; thirteen were in the Foothills area of Alberta; six were in the Fort Norman area, away up the Mackenzie River; and one in the Great Slave Lake area. The total cost of drilling these ninety-seven wells has been more than fourteen million dollars.

Q. What did you find in respect to the Fort Norman and Mackenzie River area?—A. There are two or three small productive wells in the Fort Norman area recently opened up and tested with a view to putting in a small plant there to supply the local demand for gasoline, kerosene and fuel oil.

By Mr. Smoke:

Q. In the two territories you speak of, are they productive wells?

By Mr. Donnelly:

Q. Have you any at Wainwright?—A. We have drilled wells in the Wainwright area but we have no production.

Q. There is some production, though?—A. There is some production, yes.

By Mr. Smoke:

Q. Any possibility?—A. Not in the wells that we drilled.

By Mr. Spencer:

Q. You are not developing the Wainwright field intensively, but of course you found the oil?—A. We drilled several wells in that district and we got some gas and a little oil. We got some heavy oil, but the quantity of the oil was not sufficient to make it a commercial proposition. Some other companies drilling there, however, got a larger volume of oil than we did in our wells. We drilled two wells in Ribstone where we got slightly better showings of oil than we got at Wainwright, but even there the wells were not commercially productive. They made sixty or eighty barrels when they were first completed, but after being produced for a short time they dropped off to eight or ten barrels per day. The oil is so heavy that it is of very little value. We have given up all of our leases, I think, in that entire area.

By Mr. Pettit:

Q. What about the proportion of oil and gasoline in the Fort Norman and Mackenzie fields as compared with the Turner Valley field?—A. Well, the oil at Fort Norman is a real crude oil of very high grade. I do not know offhand what the yield of gasoline and kerosene and other products would be, but there would be a high percentage of gasoline. It is a better grade of oil, I think.

By Mr. Smoke:

Q. But you cannot get it to market, can you?—A. Locally there is a small market for it. It is only about two hundred miles from there to Echo Bay in the Great Bear Lake area where there is a lot of prospecting going on, a lot of planes in there, and boats. They were very active in there last summer and I think will be even more so this summer.

By Mr. Bothwell:

Q. There is just one statement that you made, Mr. Hopkins, that I do not understand yet. You say that you have difficulty in finding a market for any greater production from your refinery in Calgary. Well, what is the reason you cannot find markets? There must be more than you produce there used in those western provinces.—A. We have used the maximum amount of Turner Valley naphtha possible to make a good grade of gasoline. With normal consumption of gasoline there would, no doubt, be a demand for all the naphtha that could be produced in the field, but on account of the conditions there, the farmers using horses instead of tractors, and a lot of automobiles tied up because of lack of money, there is a very much reduced market at the present time.

Q. How far east do you ship from Calgary? Where does the Regina refinery come in? What fields do you supply from your different refineries?—A. As far as I know all of Alberta is supplied from the Calgary refinery and the western edge of Saskatchewan.

By Mr. Donnelly:

Q. Have you ever been approached by those people in Coutts to run a pipe line there?—A. Not that I know of.

Q. You do not know whether you turned them down or not?—A. Not that I know of.

By Mr. Bothwell:

Q. The Imperial Oil now own the Maple Leaf Refinery, don't they?—A. Not that I know of. I don't know.

By Mr. Stanley:

Q. Mr. Hopkins, you said the two reasons for restricting the production of the oil wells in the field—you have just given one—and the other of course was that in the producing of crude naphtha you would have to waste the gas from the well? Now, to what extent is the latter cause restricting the production of gasoline from the well, or crude naphtha from the well, and to what extent is the first reason; that is, the lack of markets? I have always understood that you are using all the crude naphtha that you considered the well can produce without undue waste of gas?—A. No, we started curtailment on account of market conditions last July and there has been a certain amount of curtailment since that time; but along with that curtailment there has been a corresponding conservation of gas and a reduction in what we call the gas-naphtha ratio, or the amount of gas that is required to produce a barrel of naphtha.

Q. What is the attitude of the other refineries then towards the producers in regard to the percentage of production to-day?—A. The Regal used to take considerable quantities of naphtha from Turner Valley. They have taken very little during the last year. Why, I do not know. They are apparently running more crude from the southern fields. The Bell and Imperial refineries are using a large part of Turner Valley naphtha.

Q. Won't the Regal take any more from Turner Valley field?—A. I presume not. Here are some figures that illustrate my point: Last July the production of a barrel of naphtha required 130,500 cubic feet of gas. In October, due to a curtailment of production it required only 116,800 feet of gas to produce a barrel of naphtha. It is true that the ratio has gone up in recent months, but that is due to the natural decline in naphtha content of the wells as they get older. In February, for instance, it required 132,300 cubic feet of gas to produce a barrel of naphtha from the company's wells.

By Mr. Bothwell:

Q. What other producing wells have you in Canada outside of Alberta?—A. We have no producing oil wells outside of Alberta. We have drilled some gas wells; while up in the Fort Norman area we have some crude wells that are not being produced at the moment.

Q. There are none in Ontario here for instance?

By Mr. Smoke:

Q. In the Petrolia district?—A. No.

The Committee adjourned to resume on Wednesday, April 13, at 4 p.m.

SESSION 1932

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

WEDNESDAY, APRIL 13, 1932

No. 10

Reference.—Price of Gasoline

WITNESSES:

O. B. Hopkins, Geologist, Imperial Oil, Ltd.

Harvey S. Price, Managing Director, Eastcrest Oil Co., Ltd.

Appendix—Statement, Gas and Naphtha Ratio

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1932

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

WEDNESDAY, April 13, 1932.

The Select Standing Committee on Banking and Commerce met at four o'clock, Mr. Matthews presiding.

The CHAIRMAN: Gentlemen, this meeting was called to-day for the purpose of hearing a witness from the Turner Valley field. Mr. Harvey S. Price of Calgary is here, and will be the witness this afternoon. We have asked several gentlemen from the west, including Mr. Mayland, and Mr. Fisher, to come. Mr. Mayland I think was ill, and was unable to come, but he was good enough to suggest that Mr. Price come in his place. Mr. Fisher was unable to come. I shall ask Mr. Price to take the stand in a moment.

I should inform the committee that I have received a letter from Mr. Irwin, of the McColl-Frontenac Oil Company, enclosing a statement, and that statement is a statement of gasoline and crude oil prices from 1926 to 1932, including the mid-continent posted price of crude, and the service station price of gasoline, with tax omitted, in Montreal and Toronto; also the decreases and increases in the cost of the posted price of oil, and the decreases and increases in the service station prices. This is an unsolicited statement, and the authority given for the quoting of these prices is the National Petroleum News Price Handbooks. It is up to the committee to decide if it wants to accept it as evidence. The statement appears to be quite informative, and I shall leave it to the committee to decide whether it wishes to have it read or filed.

Mr. ARTHURS: I move the statement mentioned be printed in the published record.

Mr. DONNELLY: Are all those prices he shows there taken from the National Petroleum News Handbook?

The CHAIRMAN: The statement is captioned with these words: "I take as authority the National Petroleum News Price Handbooks."

Mr. DONNELLY: We know that. The handbook was acknowledged to be correct by some of the witnesses who were here.

The CHAIRMAN: Does the committee wish to have the statement filed?

Mr. ARTHURS: I move to have it printed, not filed.

The CHAIRMAN: It will be filed and printed. Do you wish to hear the letter read? If so I shall have the clerk read it.

Mr. STANLEY: How would it be to refer it to the sub-committee?

Mr. DONNELLY: It is all right. Read it, anyway.

The CHAIRMAN: I shall have the clerk read it.

(Clerk reads letter.)

Mr. SMOKE: That will be printed also?

Mr. DONNELLY: Before we go on, I would request that the secretary or someone write to Mr. Irwin asking him to give the tank car prices in Montreal.

Mr. BOTHWELL: On the same dates.

Mr. STANLEY: There is one question I should like to ask Mr. Hopkins.

Mr. PETTIT: Before you ask that question, may I make this interjection? That letter is going to be printed also, along with the statement?

The CHAIRMAN: Yes.

Mr. HOPKINS recalled.

By Mr. Stanley:

Q. Mr. Hopkins gave us yesterday the amount of investment in the valley by the Imperial Oil and its subsidiaries. I neglected to ask him what the investment, approximately, was of the independent companies.—A. In the evidence given in Edmonton, someone—I forget who—said that the total investment in Turner Valley, in their opinion, amounted to $25,000,000.

Q. The total?—A. The total figure I gave you yesterday was the investment of the Imperial Oil Company in its producing operations in the west.

Q. You could not say just how much is in the valley?—A. No; that was as of January 1, 1930.

Q. You do not care to estimate it?—A. I have a statement here of the cost of wells in Turner Valley.

Q. The company's wells, or all wells?—A. The company's wells. There were 58 wells drilled by our associated and subsidiary companies, at an estimated total cost of about 10½ million dollars.

Q. How many of those companies have paid dividends?—A. Only one company, the Royalite.

Q. How many independent companies have paid dividends?—A. Well, I will try to enumerate them, the McLeod Oil Company and the United Oil Company, I believe, from the sale of property rather than from the production of wells.

By Mr. Pettit:

Q. Can you give us the dividends they are paying?—A. No, I cannot. They have been very small; I think a matter of a few cents per share.

By Mr. Smoke:

Q. More than one year?—A. I don't know—I believe the McLeod Oil Company has paid two or three dividends, did they not, Mr. Price?

Mr. PRICE: I think they paid a couple of small dividends, the Home—

The WITNESS: The Home has paid more dividends than any other company. I believe they paid about eight or nine hundred thousand in dividends. It, I believe, is the only company which has paid approximately the amount of their investment in the form of dividends. The original investment, as I recall it, is abount 1,000,000 shares sold at about $1 a share.

By Mr. Stanley:

Q. Have you the total figures there as to what has been returned in the way of dividends outside of your subsidiaries?—A. Not accurate figures, no, sir.

Mr. PRICE: That could be easily secured from the Oil and Gas Association.

By Mr. Stanley:

Q. How many of your wells do you say are still producing, out of the 58?—A. There were 50 that had produced a greater or lesser quantity, of those I would say at the present time there are probably 45 which are capable of producing.

Q. How many are you using for gas in connection with your contract?—A. It varies with the consumption of gas. In the winter time we sell up to 45 to 48 million cubic feet a day, and when the consumption is that large, it requires the greater part of the Royalite's wells to supply the requirements.

Q. Can you tell me how many dead wells there are in the Valley?—A. From the point of view of naphtha producers, there are a large number that are practically dead.

Q. You cannot say how many?—A. I have a statement here of the gas naphtha ratio of practially all of the Turner Valley wells. It depends on the line of demarcation between a gas well and a naphtha well. If you take say, three or four hundred thousand cubic feet per barrel naphtha as a separating point between a naphtha well and a gas well, there are a large number of wells that will produce gas, but will not produce an appreciable quantity of naphtha.

Mr. STANLEY: Mr. Chairman, would the committee consent to having that statement included in the records?

The CHAIRMAN: Yes.

The WITNESS: I think I have the statement here. I will be glad to submit it.

By Mr. Stanley:

Q. Yes. We were speaking about your taking production from the independent companies. Have you ever refused to take production from any of the independent companies?—A. Yes, sir.

Q. For what reason?—A. The statement I made yesterday was that all the companies that we were purchasing from last July were pro-rated. Our purchases from them were pro-rated in proportion as we pro-rated the production from our own wells, with a further statement that when any of those companies sold to farmers, we attempted to deduct from their purchases the amount of their sales to farmers. In some cases their sales to farmers were in excess of our normal pro-ration in purchases, in which case we would not take anything from them.

Q. You would not take anything from them? For how long? You mean you refused any of their production month to month?—A. Well, it was carried more or less on a monthly basis. The pro-ration was determined each month in advance.

Q. Only those companies who had sold in private sales above your pro-ration?—A. That is the only way that any company that we purchased from was eliminated from our list of purchasers, yes.

By Mr. Smoke:

Q. These purchasers, therefore could not have a chance to sell to farmers?—A. No; because if they did it meant we cut down the production from our own wells, and cut down correspondingly production we could purchase from other companies. Many of the companies, for instance, could sell all of their production in the summer months, and then would want to sell us in the winter time, when they could not sell it, and when we could not sell it; when all we could do was put it in storage in the hope of selling it next year. We see no reason why we should put it in storage for the next year, any more than they should put it in storage for the next year, and see what the market outlet would be.

By Mr. Stanley:

Q. Therefore, the company who would undertake to sell any considerable amount of their production at the well would run the risk of being debarred from having their production taken by the Imperial Oil when the farmers' market subsided.—A. Yes, putting it that way, it is quite true.

Q. Are there any persons who find themselves in that position up to the present?—A. Oh, I presume there are a good many, because there is a considerable stock of naphtha in the Turner Valley for sale, which is in storage.

Q. Which the Imperial Oil do not take, nor any portion of it?—A. No.

Q. Now, in regard to the price which you pay for crude naphtha. How is that price arrived at?—A. I think I will have to ask you to refer that question to Mr. McCloskey. The refineries determine that price. We, as producers, sell it at the price which we are offered for it. They have some regular method of arriving at the price.

Q. Now, in the sales which your company is making direct to the farmers, you sell, I presume in the Valley to farmers or any others?—A. We offer to sell, yes.

Q. Do you sell in the valley any other products than those entirely belonging to the valley?—A. Yes, we sell finished gasoline from the Calgary refinery.

Q. No other?—A. No, not that I know of.

Q. You do not sell any but the finished gasoline?—A. We sell Turner Valley crude naphtha and finished gasoline.

Q. And distillates?—A. No.

By Mr. Donnelly:

Q. Fuel oil?—A. There is no fuel oil produced.

Q. From your refinery?—A. From the refinery, yes. There is fuel oil sold in Calgary, yes.

By Mr. Stanley:

Q. I mean in the valley?—A. Not in the valley.

Mr. STANLEY: I think that is all, as far as I am concerned.

HARVEY S. PRICE called and sworn.

By the Chairman:

Q. Are you identified with any gasoline or oil company in Calgary, Mr. Price?—A. With the Eastcrest Oil Company, Limited. I am managing director of it, and have been for a couple of years.

Q. Before that you were identified with the oil industry?—A. Oh, I have been, more or less, since 1925. I used to practice law. I ceased to practice it, and attempted to practice oil.

Q. From 1925 to 1930, what was your connection with the oil company?—A. With the Cooper-Nonton Oil Company.

Q. What was your connection there, Mr. Price?—A. Well, I raised the funds to drill a well. We drilled a well to 4,840 feet and came to the conclusion that we could not get production and abandoned it. Out of that grew the Eastcrest Oil Company. We used its equipment and commenced to drill in another place.

Q. The Eastcrest Oil Company has drilled its own wells?—A. Yes.

Q. How many?—A. Three, and we drilled another to 3,200 feet and lost it, lost the whole thing. We completed three wells, three producing wells.

Q. These wells are in the Turner Valley?—A. In the Turner Valley.

Q. Are the three wells that you speak of producing at the present time?—A. Yes, all producing at the present time.

Q. To whom do you sell your products?—A. We came into production in our No. 1 well on the 18th of September, 1930, and No. 2 well on the 27th of September, 1930. From that time, our first sales were really in October, 1930. From October until I think the end of February, 1931, we sold the output to the Regal Oil Refining Company.

Q. The Regal operates a refinery?—A. In Calgary. I think the purchasing company was the Alberta Pipe Line Company, but it is a Regal organization.

Q. The Regal controls the Alberta Pipe line?—A. Yes, it is a subsidiary of the Regal, as is usual with a half dozen companies, the Regal Oil Producing Company, and the Regal Pipe Line. It is an Alberta pipe line, and the Regal Refineries, and so forth. From that time until the present we have sold to the Imperial Oil Company whatever they would take.

Q. Since about?—A. Since the commencement of March, 1931. They took everything we produced until the 19th July, 1931, and then we were notified by Mr. McLeod, manager of the Royalite Company, and the Imperial interests in the field, notified us that they would have to cut down their takings from us because they feared that if they did not, they would not have sufficient storage during the winter-time to take any at all; that on and after the 20th July, 1931, they would take only 50 per cent of our June deliveries. June was a full month. We delivered to them 11,040 barrels in June. From July 20th to the 31st, they took on the basis of 50 per cent of our June delivery, which would be on the basis of 5,520 barrels. In August they took 5,520 barrels; in September they took 5,300 and some barrels; in October, 4,700 and some barrels; November, 4,300 and some odd barrels; December, about the same; January, 3,700 barrels; February—they have two months at 4,300—

Q. It was raised to 4,300?—A. No, about 4,300. No. It came down greatly? There may have been two months of 4,300 each. Then the next month 3,700; the month following that 2,700, and March was 2,700. The month previous to that it was 3,700. I think there were two 4,300 before that. Then it was 4,700, 5,300 and 5,500. Then, this month, April, we were notified that they would take 271 barrels for the first ten days, 271 for the first ten days of this month; and then I received word from Calgary that our quota for this month had been set at 1,700 odd barrels, 1,725 for the month.

Q. A reduction of 1,000 barrels?—A. Yes. The month before was the same. We have sold until the first of this month, and I do not know that we have sold any yet, but until the first of April when we were notified that only 271 barrels would be taken the first ten days, and that they did not know what they would take after for the balance of the month. At that time we had sold no naphtha to farmers at all. In January we did sell some naphtha to the Northwest Stellarine of Coutts and Shelby. They have two refineries, one at Shelby and one at Coutts.

By Mr. Stanley:

Q. Would that be deducted from your pro-ration?—A. Apparently it was.

Mr. Hopkins: May I ask Mr. Price if he knows why the pro-ration was cut down to such a small amount for the first ten days in April?

Witness: I do not know, but I believe it was a matter of tankage, I understand, or something of that sort. Commencing April, I understand their refineries commenced to fill their bulk storage to supply farmers and I never received any direct explanation. I understood that was the reason for it.

By the Chairman:

Q. What do you mean by bulk storage?—A. Bulk storage out in the different towns. They do not fill them. They hold it and in the spring they shove it out into the bulk storage in the little towns and villages, possibly 12,000 to 50,000 gallons into those different places, and they fill those tanks, and that relieves their storage at Calgary, or wherever they have it.

Q. That is a seasonal operation?—A. Yes. It is the buying of Turner Valley naphtha by farmers, which is a tractor fuel, and that commences roughly on the first of April. It commences a little earlier in the middle of March, but usually it is the first of April. March, April, May and June, are the heavy months. Last year I believe 20,000 barrels were taken out in drums from the Turner Valley by farmers who came there and bought it and took it away in drums. About the same, 20,000, in May, and about 15,000 in June; I think that is approximately correct.

By Mr. Stanley:

Q. Now, Mr. Price, the statement was made by Mr. Hopkins yesterday that the pro-rations of reductions were the same for the subsidiaries of the Imperial Oil as it is for the independent companies. Have you any reason to dispute that?—A. Well, Mr. Hopkins may be in a position, or Dr. Hopkins may be in a position to make a statement to that effect. I am not. I do not know the Imperial Oil business. I do not know whether it is correct or not. All I know is that if they are going to take from us on the fifty per cent basis of general production as were told originally, they certainly did depart from it, and for no reason on our part. We were not selling to farmers or to anyone else. For a long period we sold to no one at all. In effect, what did happen was this: that while they could run their wells and could market it, we could not. We had to hold it back, regulate the pressure to hold it back, and they could run their offset wells, and shut off the lesser producing wells and drain our property.

Q. Go ahead and explain that. That is a new problem.—A. I don't know whether it has anything to do with your inquiry or not, I just got a wire to come here. We have this Easterest property. Here is the Maryland property and here is the Southern Lowery. Now, we have three wells here, No. 1, 2A, and 3. We delivered from these wells to the Imperial in June, 11,040 barrels. We were cut to 5,520 barrels, that was in August, the first full month. The Mayland has four wells, out here. The wells offset us. We ran full open operation at that time. They have four wells, No. 1, No. 3, No. 2 and No. 6, remote wells. We held down the production for the Mayland company, which is the Imperial Oil subsidiary. They own 51 per cent of the stock. Production was taken very largely out of those two wells, which are offsets to our property. There is conceivably nothing illegal about it. They are perfectly entitled to do it. I am just pointing out the effect on our property. They have possibly half a dozen or more of the wells that Dr. Hopkins refers to, that are lean wells. They have produced their stuff. They are largely gas wells. They could close that end up full, and open this one wide (indicating), which would possibly be rock pressure, 1,500 pounds. You would run that anywhere from 1,000 to 1,200 pounds back pressure, hold it at that with your valve, and release it and it acts there as a separator, and produces your naphtha from the gas. If you hold in too much gas or tie it in, you might conceivably take it out of these wells down here, and it results in draining the properties of the offsets.

Mr. Hopkins: May I ask Mr. Price a question? Do you know, Mr. Price, the amount of naphtha you sold from your Eastcrest property to the Imperial up to the first of January this year?—A. To the first of January?

Q. Of this year.—A. The first of January—the total?

Q. Yes.—A. No, I can give you a rough idea of it. I think in March we sold you somewhere in the neighbourhood—

Q. I mean the total since the property was put on production since you started selling. I think I could tell the figures offhand. I mean the statement of the production from your property, and the production from the offset walls, including the Southern Lowery and the Mayland leases. We have purchased from the Eastcrest, something more than 1,000 barrels in excess of the production from our offset wells.—A. Yes.

Q. So, I do not believe—A. That has absolutely no bearing. That may be all right for these gentlemen who do not understand the situation. That is just drawing a red herring across the trail. If you have got wells over here, and you keep them closed and you take it out of those, then you will drain those wells, you will take it out of those other wells.

Q. The point is, we have not unduly drained your property?—A. You have unduly drained our property, if you followed the procedure that I am outlining, and I believe you have, and I believe it is your policy in the field to do it.

Q. We have purchased—I will make this statement—up to the first of January this year we have purchased more oil direct from the Eastcrest property than we have produced from all those offset wells.—A. I do not think so.

Q. That is a fact.—A. It is a fact?

By Mr. Donnelly:

Q. From the opposite wells?

Mr. Hopkins: From the offset wells.

Witness: Our wells were better producing wells than your wells.

By the Chairman:

Q. If you were producing there, and they were not producing here, would you drain from them?—A. Oh yes. If I were producing here, and they were not producing here, I would, surely.

By Mr. Bothwell:

Q. The opinion you mean to convey, Mr. Price, is this: you are held down by the Imperial Oil?—A. In fact, we cannot sell it; they regulate our sale. There is no sale for it. They hold us down, and then they run at a lower pressure. It is a matter of pressure in your wells. There are a lot of factors in it.

By Mr. Donnelly:

Q. Do they do that with all the wells that are approximately close to yours, the offset wells?—A. There is some dispute about it; I maintain they do.

By the Chairman:

Q. Now, Mr. Price, what we are particularly interested in is the cost of gasoline, and the ultimate cost to the consumer.—A. Yes.

The Chairman: I would ask the committee to question the witness, if anyone cares to do so.

By Mr. Stanley:

Q. Since we have the matter of the gas question in Turner Valley introduced—it was introduced yesterday—I do not know what Mr. Price has to say about it, but he is a representative of the independents, and I think we ought to ask him to make some statement in regard to the question of gas waste and gas conservation from the standpoint of the independent wells, particularly in view of the fact that the Royalite has the gas contract at the present time. Have you anything to say in regard to that, Mr. Price?—A. I do not know whether this is germane to your purpose or not. I think the Turner Valley should be treated as a whole. There are wells, as Dr. Hopkins stated, that produce—require the waste or the use of say 500,000 cubic feet to raise on barrel of naphtha to the surface. There are others that require only 20,000 cubic feet to raise a barrel to the surface. There are some that take as much as—there is practically no paphtha brought up—some take as high, I understand, as 750,000 to 850,000 cubic feet to raise a barrel to the surface. And we have been going into this gas business and the conservation of Turner Valley for a year.

Tests are being taken, or will be taken shortly. A committee has been appointed by the Alberta Government to take a test and with authority to reduce the flow of the valley 200,000,000 cubic feet per day. What should be done with the Turner Valley is that ten or twelve of the best wells should be used to produce naphtha gas, and the rest of them closed in, and you would then, by using —I think you could get twelve wells that would use not more than 60,000 cubic feet on an average to produce a barrel of naphtha. If you used 100,000,000 cubic feet, you would get as much to the surface by the using of perhaps 300,000,000 cubic feet under the pr esent arrangement, would you not, Dr. Hopkins?

Mr. Hopkins: That is right.

Witness: And then distribute the naphtha, and you would hold down your gas. I think some compensation should be paid for wells for being closed in on a basis of the price of gas, because you would be lengthening the life of the reserves in the field, lengthening the life to the city of Calgary, and that runs down sometimes as far as Lethbridge. You would be lengthening the life of the properties, the Royalite property, which has the contract for the gas, and the gathering lines, and that sort of thing. Their earning power would extend over a longer period, giving the benefit to the people, by conserving the gas, and likewise distributing the naphtha according to the value established for each well. Take their value by means of tests, the amount of naphtha, the amount of gas, and the amount of rock pressure they have. Rock pressure is simply the comparative measure for the regulation of the product in the field. If you have a well that will produce 20,000,000 feet a day, and that rock pressure is 1,200 pounds, that well will produce very much more than a well that is producing 30,000,000. The rock pressure there would have to be around 800 pounds. That would have to be worked out. I think this committee is going to work it out, and they will possibly make a suggestion to meet that situation in that way. The Royalite has a contract with the gas companies supplying this system, the Southern Alberta system there. They have a scrubbing plant; for that gas used for domestic use has to be scrubbed. And I think the cost originally to the Royalite company, at least their book value, whether you believe them or not, is $1,300,000 or something of that sort, and it has been written off at the rate of ten per cent per annum for seven years. There is a residue there, and if you dealt with the matter in the way I have suggested, you would get as much conservation as you can get in the wells in Turner Valley. If you accompanied that with compensation to the people who held their wells, you would be pretty fair.

By Mr. Stanley:

Q. In other words, from the gas standpoint, some wells are more wasteful?—A. More wasteful, and there are wells too that have at the most, a flash production. The great majority of the Royalite wells today are very wasteful; but they are selling gas—

Mr. Hopkins: They are not the most wasteful there, you know.

Witness: They are intermediate.

By Mr. Donnelly:

Q. Are you selling any gas to the Royalite?—A. I do not think we can sell—not gas, not gasoline.

By Mr. Ganong:

Q. Because it is gas?—A. Yes.

By Mr. Donnelly:

Q. There are some independent wells selling gas?—A. Not that I know of.

Q. I understood yesterday that there was some.

Mr. BOTHWELL: That was a suggestion made yesterday as I understood the evidence.

Mr. HOPKINS: The Royalite purchases a small amount from other companies, but it is practically negligible.

Mr. BOTHWELL: The statement that you made yesterday was that a suggestion had been made by the government, or by some body on behalf of the government to compel you to take gas from those.

Mr. HOPKINS: To consolidate the whole operations, as outlined.

The CHAIRMAN: Does any member of the committee desire to ask Mr. Price questions about gasoline?

By Mr. Stanley:

Q. We have had evidence here from the various refining companies in regard to the preparation of gasoline.—A. Yes.

Q. And we have also had evidence in regard to the preparation of manufacturing gasoline from crude naptha?—A. Yes.

Q. And the market for gasoline from crude gasoline?—A. Yes.

Q. I have forgotten the proportion. What were the proportions, Dr. Hopkins?

Mr. HOPKINS: Sixty and forty.

Mr. STANLEY: Sixty of the naphtha, and forty of the crude.

Mr. BOTHWELL: Sixty of the naphtha, in winter-time, and forty—

Mr. HOPKINS: Forty was in the summer time. These are only approximations. I do not know exactly the amounts.

Mr. STANLEY: Sixty of the crude and forty of the naphtha.

Mr. BOTHWELL: No, sixty of the naphtha in the winter-time, and forty of the naphtha in the summer-time.

By Mr. Stanley:

Q. I would be interested, Mr. Price, if you could give us the opinions you have in regard to the attitude of your company in respect to this matter, because it has a direct bearing upon the cost of gasoline to the consumer.—A. Well, I can only tell you this, that a year ago when we started to question this amount, I think the Imperial Oil took the attitude that they could only use 25 per cent of that from the Turner Valley in making their gasoline, and the balance of it had to be crude. By crude I mean the heavier stuff they import. And that is absolutely incorrect; I believe deliberately so; I do not accept it at all. Forty per cent is—I believe that you can use—as a matter of fact, the Bell refinery has been turning out in the last three or four months of operating, and they have been using as high as 85 per cent and higher of the Turner Valley material to make gasoline.

By Mr. Donnelly:

Q. The well is at Calgary?—A. Yes; it is a little refinery. It is a combination of distillation and chemical treatment. They probably do have vapour loss without those chemicals.

By Mr. Bothwell:

Q. The Bell company say they can use 85 per cent of naphtha. Where do they get their other material, the other 15 per cent?—A. Well, I do not know. They would have to import it, I suppose.

By Mr. Donnelly:

Q. From the Sweet Grass country, I suppose.—A. Well, yes. I do not know whether they do or not. What you really need you can get. I do not suppose actually they need crude at all to balance that up. I am not in the refining. I know they use that. I have asked the manager of the Bell refinery, and he told me they were using at least 85 per cent. I believe they use a higher amount than that sometimes.

By Mr. Stanley:

Q. What is your criticism of it?—A. I have used it, and found it to be very good gasoline. I remember I had it outside, three or four tanks of it have been used, and it was found to be very satisfactory. They got the contract from the city of Calgary this year.

Q. In what way?—A. Well, for gasoline that they put in all their cars and trucks, and so on. I will give you an idea. Our stock was about the highest that there is in the field in gravity and we made a test——

By Mr. Bothwell:

Q. What is its gravity?—A. Well, it depends somewhat upon your pressure. With very high pressure you get about 81 gravity. I think 76 would be about a fair average if it is wetter. We made a test of the drier gasoline there, and it was 74 gravity when we were through with it, distilling and the chemical treatment process would bring it very much below. We measured a quart, took a measured quart out and put it in a container in the hood, and attached direct to the carburetor of an Essex car, likewise attached. We heated up the car to summer condition. There was no question about it as far as winter conditions are concerned. We heated it up to summer conditions, and an Essex car, particularly, has one of those businesses in the front, a spring that acts on the gas, and we held it at that, put it on the road, and we got $5\frac{3}{4}$ miles out of that quart. And it would pass any test so far as your corrosion tests are concerned; that would show it was harmless to your machinery.

By Mr. Stanley:

Q. What is the objection of the consuming public to that gasoline?—A. There is no objection by the consuming public. The objection is, I assert, on the part of the interested refineries, the interests who have millions of dollars invested in refineries, which were put up to refine heavier crudes.

By Mr. Stanley:

Q. I always understood there was a bad odour to it?—A. I do not know anything about the other qualities. There is no bad odour, if you like the gas odour of ordinary gasoline. There is not any bad odour to gasoline, for instance.

By Mr. Pettit:

Q. How does the crude naphtha of your Turner Valley wells compare with casing-head?—A. I am not an authority on it at all. I think for the most part Oklahoma casing-head is perhaps higher naphtha than that. I do not know whether Oklahoma casing-head is a useful business or not.

Q. Are they both used for the same purpose?—A. I do not know that. I know we are asked to compete with Oklahoma casing-head.

By Mr. Bothwell:

Q. In what way?—A. It is practically on the price that Turner Valley is based, Oklahoma casing-head prices.

By Mr. Ganong:

Q. You serve certain farmers direct?—A. Yes.

Q. How is the price fixed to farmers?—A. I think the price has been 10 cents a gallon plus the tanks.

Q. They all charge the same?—A. No, I do not know that they do. I have had some at 12 cents. Prices vary in the field. Selling to farmers and distributing direct from Turner Valley is not a sale price practice and they do not want it. It is just a straight matter of business with them. They are fighting it in every way they can. I have quite a lot of sympathy with their attitude, "If you sell to farmers we are not going to buy from you." That is their attitude: it works a great difficulty in the larger wells. The smaller wells can store for a period and sell after a short time, just as Dr. Hopkins says, "We are not going to buy from an outfit that uses us for one portion of the year and sells to farmers and cuts off our output for another portion of the year." I am not putting it too baldly.

By Mr. Hopkins:

Q. To a certain extent?—A. Yes.

By Mr. Stanley:

Q. Has the refinery any distribution stations?—A. I think it has some.

Q. Do you know the price to sell at?—A. There is one price for gasoline throughout the whole western country. I do not think it varies in different areas, but it is generally accepted Standard Oil sets it.

By Mr. Hopkins:

Q. Are there not really three different prices for gasoline in Calgary?—A. Never really until they were forced to sell Turner Valley naphtha. There was only one price until Turner Valley started to interfere. They started to turn out gas at 25 cents and different prices in the different pumps, coloured it green or red, but the whole object was to prevent the sale of Turner Valley, to interfere with them.

By Mr. Bothwell:

Q. You sell the crude naphtha you produce to the Imperial Oil?—A. They commenced to cut us down to such an extent we had to sell. I put up 6,000 barrels of new tankage and we filled it.

Q. You are still selling to the Imperial Oil?—A. Anyone that will take it.

Q. At what price?—A. $2.88 a barrel; 35 gallons.

By Mr. Stanley:

Q. You might just give the prices you have reiceved?—A. We received—I think when we came into production the price was about $3.50. It might have been $3.45.

Q. From whom?—A. From the Regal, Alberta Pipe-line.

Q. How long did you purchase from the Regal?—A. We sold to them until the end of February. The price changed, I believe, on the 11th February, 1921, dropped to possibly $2.95 a barrel; perhaps a month later less—

Q. Who were you selling to then?—A. We sold to the Regal but from the commencement, from October until the 11th February, 1931, the price remained at about $3.50 a barrel; it may have been $3.45. Then it dropped to $2.95, I think on the 11th February; perhaps in March—I do not believe it was a month, March 14, it dropped to $2.50 a barrel.

Q. It came back to $2.88?—A. Yes, it came back to $2.88.

Q. And stayed there ever since?—A. It has remained there ever since. There is a nice little history in that. We sold to the Regal from October until February. Now, that roughly represents the period of storage and we sold them thousands of barrels, which I do not believe they could sell. They were holding at the time and they were chock full and it dropped to $2.95 roughly inside a month. The Regal would lose $40,000 or $50,000, perhaps more, at one crack.

By Mr. Ganong:

Q. Is the Regal an independent company?—A. I cannot tell you. There are not many independent companies in the oil business.

By Mr. Hopkins:

Q. May I ask Mr. Price why he stopped selling to the Regal?—A. Why I stopped selling to the Regal?

Q. Yes.—A. I do not know whether that is a fair question or not.

By Mr. Pettit:

Q. Who sets the price for crude naphtha in Turner Valley?—A. Posted price. Some interesting evidence was given on that in a case recently between the Alberta Pipe-line or the Regal and the Homestead Oil Company, and which evidence was given under oath by a number of people, that the price was set by the Imperial or the Standard.

Q. You say the Imperial or the Standard?—A. The Imperial is the Standard. I do not know whether it is set in Toronto, New York or Calgary.

By Mr. Smoke:

Q. It is a buyer's price then. You do not fix the price?—A. No.

By the Chairman:

Q. Mr. Price, is there any further statement you wish to make?—A. No.

Q. Are there any more questions of Mr. Price?

By Mr. Bothwell:

Q. These Regal people have a refiner, as well as the Bell?—A. Yes.

Q. Do you know what percentage? Would you give it that Bell produced 85 per cent of the naphtha in gasoline?—A. They used or use 85 per cent o Turner Valley raw stuff in making their gasoline.

Q. What about the Regal?—A. I do not know about the Regal. The Regal was, I think, more for handling crude than it was for Turner Valley naphtha.

Q. You also said there were very few independents in the oil business. Is the Regal a subsidiary of some company?—A. I do not know.

Q. You do not know whether it is connected with any other company or not?—A. No.

The Bell Refinery is an independent?—A. The Bell Refinery is based on the production of Spooner, in Buffalo. These are wells and properties in Turner Valley.

Q. Is there any Turner Valley naphtha used in that refinery at Coots?—A. Which refinery at Coots?

Q. I do not know how many there are. There is the Maple Leaf?—A. I think the Maple Leaf is now the Standard; the North-West Stellarine might use some.

By Mr. Stanley:

Q. Did you not sell them some?—A. I sold them some but I do not know whether they used it in the refinery.

By Mr. Donnelly:

Q. Have you shipped it in tanks?—A. It was shipped in truck tanks, a couple of thousand or fifteen hundred gallons.

By Mr. Hopkins:

Q. You also said that the refineries were built to handle heavier oil?—A. They were built before the time of Turner Valley. They were crudes that would be imported from Montana.

Q. It is your belief the Imperial Oil required heavier oil in order to use it?—A. Dr. Hopkins would tell you that. It is reasonable to assume it was built before Turner Valley was in existence.

By Mr. Stanley:

Q. It was in the Regal?—A. No.

By Mr. Hopkins:

Q. The Regal was designed to handle Turner Valley production?—A. I do not know whether it was designed or not. It was very poorly designed.

By Mr. Bothwell:

Q. Do you ship out any of your naphtha out of the province at all?—A. We have sold some. That, I believe, went to Saskatchewan, I think, recently in tank cars. I believe a couple of tank cars were shipped to Saskatchewan.

Q. Is that Alberta Pipe-line a gathering pipe-line or a trunk-line. The Alberta Pipe-line is a line into Calgary, to the Regal Refinery and it likewise has connections in the field.

Q. The same prices prevail on that as on the pipe-line?—A. I do not know. I do not think I ever got the price from any of them. I don't think you could. You would have to get an order from the Public Utilities Board to get a rate on it. As far as my information goes I asked the Regal to pump 10,000 gallons for me and they would not give me a price on it.

The committee adjourned to meet Thursday, April 14, at 11 a.m.

APPENDIX

Filed by O. B. Hopkins

GAS AND NAPHTHA RATIO IN OCTOBER, 1931, ON 31 DAY PRODUCING BASIS, ARRANGED IN ORDER OF GAS/OIL RATIOS

Well	Mcf/Bbl	Mcf/Day	Summation	Bbl/Day	Summation	Mcf-Bbl for Summation
Model 1	21	3,700	3,700	177·5	177·5	
Merland 1	29	5,300	9,000	174·0	351·5	
Sterling Pacific 1	35	710	9,710	20·1	371·6	
Mercury 1	44	8,500	18,210	195·0	566·6	
Mercury 3	45	2,800	21,010	61·8	628·4	
Foothills 1	48	2,700	23,710	56·5	684·9	
Miracle 1	53	4,600	28,310	87·5	772·4	
S. Lowery 3	59	12,200	40,510	206·5	978·9	
Mayland	60	10,200	50,710	170·5	1,149·4	44 Not equated
S. Lowery 2	66	9,200	59,910	140·0	1,289·4	to 31 days for
Adv. 5 A	68	1,900	61,810	27·8	1,317·2	4 wells.
East Crest 2A	70	10,000	71,810	142·5	1,459·7	
Southwest 1	72	1,840	73,650	41·7	1,501·4	
Commonwealth 1	75	4,800	78,450	64·0	1,565·4	
Dalhousie 7	80	2,200	80,650	27·8	1,593·2	
East Crest 3	87	11,300	91,950	130·0	1,723·2	
Homestead 1	106	3,700	95,650	35·0	1,758·2	54
Royalite 23	115	10,000	105,630	86·8	1,845·0	
East Crest 1	129	2,500	108,650	19·4	1,864·4	
Royalite 25	137	7,400	115,550	53·9	1,918·3	
Structure 1	157	7,500	123,050	47·6	1,965·9	
Associated 1	167	3,500	126,550	20·9	1,986·8	
Lowery 1	173	3,700	130,250	21·4	2,008·2	
Mill City 1-A	177	900	131,150	5·1	2,013·3	
Royalite 2	178	4,000	135,150	22·4	2,035·7	
Spooner 1, 2, 4	181	15,500	150,650	85·9	2,121·6	82
Royalite 19	207	18,400	169,050	88·7	2,210·3	
Richfield 1	213	7,000	176,050	32·9	2,243·2	
Baltac 1	222	1,500	177,550	6·7	2,249·9	
Okalta 2, 3	235	12,700	190,250	54·1	2,304·0	
Regent 1	235	4,300	194,550	18·3	2,322·3	84
Foothills 2	260	4,700	199,250	18·1	2,340·4	85
Okalta 1	260	14,000	213,250	53·8	2,394·2	
Royalite 14	265	4,720	217,970	17·8	2,412·0	
Royalite 17	272	15,000	232,970	55·2	2,467·2	
Home 1, 2, 3, 4, 5	276	21,170	254,140	76·6	2,543·8	Not equated
NMS 2, 3, 4	307	11,200	265,340	36·9	2,580·7	to 31 days for
Alb. Fed	313	3,600	268,940	11·5	2,592·2	5 wells.
Royalite 8, 11, 18, 20	327	31,000	299,940	94·7	2,686·9	112
Brit. Dom. 2, 3	331	10,200	310,140	30·8	2,717·7	
Royalite 21	336	6,500	316,640	18·7	2,736·4	
Midfield 1	367	11,300	327,940	30·8	2,767·2	
Calmont 7	374	2,800	330,740	7·5	2,774·7	
A. P. Con. 1, 2	409	5,600	336,340	13·7	2,788·4	
Hargal 1	487	4,130	340,470	8·4	2,796·8	
McLeod 1, 2, 3, 4, 5	502	23,000	363,470	45·8	2,842·6	Notequated
Calmont 2, 4	510	13,300	376,770	26·1	2,868·7	to 31 days
Wellington 1	576	18,600	295,370	32·3	2,901·0	for 5 wells.
Freehold 2	593	8,600	403,970	14·5	2,915·5	134 Est. nap.
Sioux City 1	618	2,350	406,320	3·8	2,919·3	
Widney 1	620	4,400	410,720	7·1	2,926·4	
Vulcan 1	870	2,000	412,720	2·3	2,928·7	137
	52 Wells		Total daily Gas production		Total Naptha production	
	16 Wells over 300,000 cu. ft. per day					

SESSION 1932

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

THURSDAY, APRIL 14, 1932

No. 11

Reference.—Price of Gasoline

WITNESS:

A. E. Halverson, General Sales Manager for Western Canada, Imperial Oil, Ltd.

Appendix,—Documents filed by Witness.

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1932

MINUTES OF PROCEEDINGS

House of Commons,

Thursday, April 14, 1932.

The meeting came to order at 11 o'clock a.m., Mr. Matthews presiding.

Members present: Messrs. Arthurs, Baker, Bothwell, Campbell, Donnelly, Ganong, Matthews, Perley, Pettit, Smoke, Stanley.

A. E. Halverson, General Sales Manager for Western Canada, of Imperial Oil Limited, was called, sworn and examined.

Witness retired.

The meeting adjourned till Tuesday, April 14th, at 10.30 a.m.

A. A. FRASER,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

House of Commons,

Thursday, April 14, 1932.

The Select Standing Committee on Banking and Commerce met at 11 o'clock, Mr. Matthews presiding.

The Chairman: It was felt by the sub-committee that we should have a statement from the Imperial Oil Company in regard to their price structure in the western provinces, and having that in mind, it was decided to bring here to-day Mr. A. E. Halverson, general sales manager in western Canada. Mr. Halverson has given evidence in Regina, and I think this would be a good opportunity for us to hear him, and to submit any questions that have been sent in from the West. With your permission I will ask Mr. Halverson to take the stand, and give his evidence.

A. E. Halverson, called and sworn.

The Chairman: I think it would be more orderly if we allowed Mr. Halverson to make his statement, and then we can ask him any questions that we feel disposed to ask. Will you proceed, Mr. Halverson?

The Witness: Before going into a general discussion of the western price structure, we should like to reply to a memorandum sent us by Mr. Campbell, M.P., as follows:—

> The point which I wish to bring to the attention of the Committee is that we have certain rumours that there is a working arrangement between the Imperial Oil, the British American Oil, the Puritan Oil and probably all of the other major oil companies, whereby the spread between tank car prices and tank wagon price is guaranteed to the various companies doing business with the Imperial Oil at the time of any particular purchase.
>
> I regret that you were not present when I endeavoured to point out to the Committee at this morning's session the effect that this has on local co-operaive organizations. For instance, after the reduction of the price of kerosene last June the margin of profit on that commodity was very low indeed, being in fact less than two cents per gallon. It is contended that the various oil companies above referred to were not compelled to operate on that margin of profit, but that, under and by virtue of this guaranteed spread agreement, they were unaffected by the reduction in the tank wagon price. It can readily be seen if this is the case that drastic reductions of this nature might be used as a very effective weapon to put any independent or co-operative organization out of business whenever the Imperial Oil Company felt so inclined. It has occurred to me that the existence or not of this agreement could be proved by ascertaining the purchases made by the British American Oil of kerosene for Saskatchewan consumption prior to June 1st, 1931, and for some time subsequent thereto. If, as a fact, the British American was paying five cents per gallon less per tank car after June 1st than before it would at least require an explanation.

That is the purport of the letter.

By the Chairman:

Q. What are you reading from?

Mr. CAMPBELL: May I be permitted to interject an explanation there? This is a letter that was sent to me, by the Minister of Highways for the province of Saskatchewan, written by a local party there. The reference to the Committee there refers to the Committee of the Saskatchewan legislature. I discussed it with the chairman, and at that time he thought in all probability no more Imperial Oil Company officers would be here; so I submitted it direct to the company.

The WITNESS: I am very glad you did. On June 10 last year, we reduced the price of kerosene in the prairie provinces, five cents per gallon. With your permission I will read a telegram sent our managers at that time.

> Reduction in price of 5 cents per gallon on tractor kerosene and 15 per cent on tractor lubricating oils will be made throughout the prairie provinces, effective June 10th. This reduction is possible because of recent recessions in the price of crude oil, upon which the cost of all petroleum products is predicated. At this recession in crude oil prices would permit a reduction of only a fraction of a cent on gasoline prices, which it would be difficult to extend to the consumer because of increased sales tax, it has been decided to extend the entire benefit to the western farmer who is a large user of kerosene and lubricating oil for power farming equipment. Unfavourable crop conditions and low prices still harass the prairie farmer and the decision to reduce prices of tractor kerosene and tractor lubricating oil was reached in the hope that it would enable him further to lower his operating costs and thus make a larger margin upon the season's operations. This reduction in prices will apply until the end of the threshing season and as long thereafter as existing conditions prevail in the pretroleum industry. It is felt that the depressed conditions maintaining in certain parts of the west warrant this special accommodation for prairie farmers. The action in making such a drastic reduction is an extraordinary one based upon extraordinary conditions. The average price of tractor kerosene based upon five large centres in the west was until now 21·3 cents per gallon. The new price will average 16·3 cents, the lowest at which it has ever been sold.

That is the end of the telegram.

At the time there was a great deal of talk in the west that the farmer's cost of production must be reduced if he was to exist at prevailing prices for wheat. We therefore felt we could make a real contribution toward this end by a drastic reduction in the price of kerosene, which product operates satisfactorily in practically all tractors if a very small quantity of gasoline is used for starting; also, the farmer by purchasing kerosene escapes the necessity of paying any gasoline tax. Although most of the farmers in the west took advantage of these low prices on kerosene and used same for their tractors last fall during threshing, yet all comparisons with United States prices have been on the basis of the retail price on gasoline. In the first place, the farmer in western Canada does not pay the retail price for gasoline, but buys at wholesale, the same as a dealer, and in the second place, as before mentioned, gasoline is not required for production purposes.

As our base price for kerosene in tank cars on June 10th of last year was 4 cents per imperial gallon, f.o.b. group three, if we had also reduced our tank car prices 5 cents per gallon, it would have resulted in a tank car price of minus one cent—one cent less than nothing—group three, which is obviously out of the question. In this connection we might mention that the base price of 4 cents on kerosene, to which we refer, includes sales tax, excise tax, duty, exchange and freight surcharge—the only extra which the co-operative has to add to arrive at his laid-down price, is the regular freight rate from group three.

Approximately 4 per cent of the gasoline and kerosene requirements of the prairie provinces are handled through co-operatives—the remaining 96 per cent of the western farmers buy their requirements through the regular oil companies at prevailing tank wagon prices; in other words, a reduction of 5 cents per gallon in the tank wagon market price of kerosene last June, would have been impossible to 96 per cent of the farmers in western Canada if the interests of the 4 per cent supplied by the co-operatives come first.

In this connection we might mention we have made no move in western Canada to benefit the 96 per cent, without being opposed by the spokesman for some of the 4 per cent. For instance, when a large portion of the farmers in western Canada, in 1930, did not have cash with which to buy gasoline or kerosene to put in their crops and could get no assistance from the banks, we extended them credit. Later in the year when the farmers found themselves unable to pay cash for gasoline and kerosene for their harvest operations, we again extended them credit. At that time we were assuming the burden which has now been undertaken by the Saskatchewan relief commission. This move on our part of extending credit to the farmers, was interpreted by some of the co-operatives and jobbers as an effort to put them out of business.

At one time there was quite a spread between the price which the farmer and the dealer paid for lubricating oil. This spread has been consistently and gradually reduced so that the farmer can now purchase his lubricating oils for production purposes at the lowest possible price. This was also construed by some of the co-operatives and jobbers as another effort to put them out of business. At one time we were charging the farmer for delivering gasoline or kerosene to him, but in an effort to reduce the price to the farmer to the lowest possible level we decided in 1930 to install a system of free deliveries. This was also construed by some of the co-operatives and jobbers as being done solely to embarrass them. Just as recently as last month, the Saskatchewan Relief Commission petitioned us to quote them special prices on lubricating oils and fuels. We were unable to do so on gasoline, but did extend them special prices on lubricating oils and kerosene. This also was construed by some of the co-operatives and jobbers as another effort to embarrass them —in other words, any move that we make in the west to reduce our price level to the farmers who purchase from us in steel barrels or by tank wagon, is never recognized by some of these jobbers and co-operatives as being made for the good of the greatest number, but always promoted by some sinister motive.

These co-operatives and jobbers who through their spokesmen have complained so often, are buying both gasoline and kerosene from us in tank cars at less than the price of imported duty-free gasoline or duty-free kerosene. In Saskatchewan, for instance, their margin below tank wagon to-day would be 3·21 cents per gallon if they imported duty-free kerosene, whereas by buying from us—a superior product and superior service not considered—they obtain a net margin under tank wagon price of 4·57 cents, or 1·30 cents more than if they were importing duty-free kerosene. Or let us take gasoline.—

By Mr. Bothwell:

Q. May I interject there. What do you mean by "duty-free gasoline"? Does that mean taking into consideration the fixed values?—A. No, sir.

Q. For duty purposes?—A. No, sir.

Q. Regardless of that, as well as the 2½ cents duty?—A. Yes, I will cover that. Or let us take gasoline, duty-free imported gasoline in tank cars would give the co-operatives an average price of 4·40 cents under tank wagon in Saskatchewan, as compared with a price they are enjoying from us of 5·27 cents under tank wagon.

In view of these facts, the statement of the co-operatives that they are being discriminated against because we take advantage of the duty, is absolutely unwarranted and untrue. We do not feel that we should be called upon to reveal our contracts with competitors in the west so long as the consumer is obtaining a reasonable price, which is all that our pledge covered.

As before mentioned, the farmer in Western Canada buys his requirements of gasoline or kerosene in steel barrels at the wholesale price and not at the retail price, as is the case in the United States. In other words, a farmer in western Canada can buy one barrel of gasoline or kerosene from us at the same price as a dealer buys 1,000 barrels.

Later on in our evidence we will give a comparison of tank-wagon prices on both gasolene and kerosene in Western Canada as of September 1, 1930, before the tariff enactment, and to-day's price, compared with United States prices.

It is evident that if there were no refineries in Canada, and if there were no duty or dumping, the requirements of the western Canadian farmer would necessarily have to be supplied from the United States. In importing from the United States it is obvious that the importer would have to pay freight, exchange, etc., and a comparison bewteen the prices in western Canada and the United States which does not take same into consideration would be just as unfair as asking why the Peace River farmer does not realize as much for his wheat as the farmer in Manitoba.

We have a statement which we will submit later which shows that farmers in Western Canada are buying both gasolene and kerosene in steel barrels or by tank-wagon at lower prices than if imported from the United States duty free. This statement will also indicate that the difference in favour of Canadian prices on gasolene at the present time is practically the same as before the tariff enactment of 1930. On kerosene, to-day's difference in favour of prices in western Canada is greater than before the tariff enactment of September, 1930.

We will also cover later in our evidence the fact that our changes in our tank-car prices of both gasolene and kerosene since September, 1930, indicate that instead of taking advantage of the duty we have done just the opposite. The statement that we will submit as evidence will be self-explanatory in that regard.

In view of the fact that we have not taken advantage of the tariff in western Canada to either farmers or co-operatives, we do not see why we should be asked to submit the prices at which we sell our competitors. To do so would merely embarrass us with some of our other large customers, and to no purpose. We will state, however, that no competitor is guaranteed by us a fixed margin. Whatever price they enjoy is subject to change without notice.

At the time we reduced kerosene 5 cents per gallon, the margin of profit enjoyed by our largest competitors was very substantialy reduced, so that they actually sold kerosene for the year 1931 in the West at a loss, although the reduction of 5 cents in question did not go into effect until June 12. Please refer to evidence given at Ottawa before the Banking and Commerce Committee, report No. 7, page 297.

We have every sympathy with the co-operative movement in the West, and as definite indication of that, we give their central purchasing agents a brokerage of approximately $20 per tank-car, although the tank-cars in question are shipped direct to the local co-operatives. At no time have we refused to sell any co-operative in the West at our posted price, nor have we ever in any way tried to influence them in regard to their prices. We believe that the co-operative has a place in the scheme of things, and we do not want you to think from this evidence that we are in any way antagonistic to them, but we do definitely want to point out that they are getting a very preferred price at the present time.

Coming to the question of comparing Western prices with Eastern prices; Hamilton division has the lowest tank-wagon price of any Eastern division. Sarnia is furnished crude oil by pipe-line, Regina by rail. Sarnia is a large refinery, Regina is a small refinery. There is relatively a very large volume of business in Otario, spread rather consistently over 12 months, whereas in Saskatchewan the gallonage is very much smaller, and for 6 months of the year we do very little. Therefore if we make a comparison with Hamilton we are making the worst possible comparison.

Based on group 3, which is world's markets, the freight rate to the Hamilton division is 6·11 per gallon. The freight rate to Regina division is 12·30 cents per gallon. Allowing for this difference in freight the price in Regina should be 23·76, it is 23·5.

Q. The freight from where?—A. Group 3, that is Oklahoma.

Allowing for the difference in freight from Group 3 as between Hamilton Division and Winnipeg Division, the price in Winnipeg Division should be 20·01; it is 20·33.

Mr. Bothwell: Higher in Winnipeg, just the reverse of what it is in Regina?—A. A very slight difference.

Mr. Donnelly: What time are these prices you are quoting?—A. To-day's prices.

The price at Saskatoon, allowing for the difference in freight from group 3 as between Hamilton and Saskatoon, should be 25·41, it is 25·77.

Mr. Bothwell: What grade gasolene?—A. Our regular grade, Premier Gasolene.

Mr. Donnelly: What is that in the United States, about 64-66?—A. No, about 60.

The price at Edmonton should be 27·94, it is 25·32.

The price at Calgary should be 26·11, it is 22·12.

Let us compare Regina Division prices with Winnipeg Division prices. The difference between the freight rate from Group 3 to Regina Divisions and to Winnipeg Divisions is 3·75c per gallon. And the difference in our price is only 3·17c per gallon, which indicates clearly that our Regina Division price is well in line with Winnipeg Division.

Q. That is to-day's prices?—A. To-day's prices. The difference in freight rate from Group 3 to Saskatoon and Winnipeg Divisions is 5·40c per gallon, the difference in our price is 5·44c.

The difference in freight rate from Group 3 to Calgary and Winnipeg Divisions is 6·10c, yet the difference in our price is only 1·79c, showing that Calgary Division is benefitting to the extent of 4·31c per gallon on account of Turner Valley.

Mr. Campbell: In other words the competition forced you down?—A. It is just the reverse, at Winnipeg our prices are based entirely on competition, but at Calgary we have a certain amount of raw material.

Mr. Donnelly: You are quoting now in tank-wagon or in tank-car?—A. Tank-wagon prices.

By Mr. Campbell:

Q. You are giving Calgary the benefit of your own local production, is that what you mean?—A. Well there is the Turner Valley oil field, of course that is of considerable assistance to the Alberta people.

Q. But the oil you deliver at Calgary, is that locally produced or is that imported?—A. At Calgary we use Turner Valley crude naphtha and some crude from the United States for blending purposes, from Montana principally.

By Mr. Donnelly:

Q. When did you begin to make these changes of 3 cents and a fraction between Winnipeg and Regina?—A. The prices I have quoted are the average tank-wagon prices for the division, not for any one city. There has been no change in our price structure in the West for some time.

Q. Because this National Petroleum Hand-book gives a difference of 4 cents between Regina and Winnipeg?—A. These figures I have quoted are accurate, and we will submit copy of same with the evidence.

By Mr. Bothwell:

Q. That is taken as of what date, those figures you are giving? They are in effect now?—A. Yes sir, to-day's date.

Q. And have been for how long?—A. I think August 24th of last year there was a change in tank-wagon prices on gasolene. Later in my evidence I will attempt to cover all those questions. I am just dealing with one phase now, but they dove-tail together.

By Mr. Stanley:

Q. I think in connection with the statement just made it might be a good place to bring out the point. You would leave the impression that Calgary benefits by reason of the local supply of crude naphtha. The impression would be left, not intentionally, that the crude which you mix with it comes from the mid-continent field, the same as the gas supplied to Winnipeg. It does not, according to the evidence it all comes from Montana and Alberta.—A. Correct.

Q. Which is of very considerable significance in explaining the difference in price.—A. Exactly.

We have dealt very hastily with comparison of prices between Saskatchewan, Manitoba, Alberta, and Hamilton.

Now coming to the division itself or to the province itself, we have a zoning system which has been widely discussed, at Regina, and I think it would be well to explain our zoning system briefly.

Mr. DONNELLY: Just a moment. What is your tank-wagon price at Regina at present?—A. $23\frac{1}{2}$ cents per gallon.

Q. What is your tank-wagon price at Winnipeg?—A. $19\frac{1}{2}$ cents per gallon.

By Mr. Bothwell:

Q. You just gave us 20·33?—A. I mentioned that was the average tank-wagon price for the entire division, not any one city.

Q. You say at Regina the price should be 23·76 and is $23\frac{1}{2}$; At Winnipeg should be 20·01 and is 20·33, and so on. Now you give us 19 something for Winnipeg.—A. I cannot add to what I have already said; those prices are the accurate average prices for each of those divisions. It is not a question of Winnipeg city, it takes in perhaps 200 points in the Winnipeg division, it is the average price we get based on actual sales. It does not include only Regina city, but every station in the Regina division, the average price and average freight rate.

Q. We have been talking about these zones ever since this hearing opened, Mr. Chairman. I think we should get the boundaries of those zones, and find out what a division means in the delivery of gasoline. Nobody has defined these zones yet.—A. I would like permission to do so.

Q. We would like to get it on record.—A. To save time let us take one province, the province of Saskatchewan. There are only three methods that we can think of upon which the price structure for Saskatchewan could be based:

1. A flat price for all of Saskatchewan, which would net us on our Saskatchewan operations a fair margin of profit. However, a flat price for all of Saskatchewan is, in our opinion, unworkable, because it would mean too high a price in southern, southwestern and eastern Saskatchewan, and too low a price in northern and northwestern Saskatchewan.

2. Price structure to be based on point of supply. This would be the Regina refinery in our case, with the exception of western Saskatchewan which draws some of its requirements from the Calgary refinery.

In this connection we wish to draw your attention to the fact that there was a Bill introduced into the Saskatchewan legislature last year, and later withdrawn, providing that we should base our price in Saskatchewan on Regina plus freight. There are several features in this proposed Act—it was withdrawn but is still being recommended by some—to which we wish to call your attention.

Can Saskatchewan or any province enforce the Act with firms having a Dominion charter, who may ship their requirements into Saskatchewan from group 3, Montana, Calgary, or some other point outside the province? If not, as we happen to have the only refinery in Saskatchewan, we are the only firm affected, and those who ship from outside the province may do as they please.

If the Act is meant to include shippers from outside the province, it is equally unworkable, because different firms will have freight advantages in different sections of the province, depending on the point from which they ship. If we reduce our price at Regina sufficiently to compete in eastern Saskatchewan, it will automatically reduce our price in western and northern Saskatchewan to a point where competitors cannot compete, in other words, create a monopoly in those districts, the thing which the legislature is striving to avoid.

We undoubtedly have a freight advantage within a 50 mile radius or more from Regina. If shippers from outside the province endeavour to compete with us in this area they will have to reduce their base price low enough so that they can pay transportation charges and still meet our price. Under the Act, if they reduce their base price in order to compete with us in the Regina zone they will have to automatically reduce their price similarly in all other parts of Saskatchewan. In other words, it will simply mean that competitors who ship from outside the province will limit their activities to those zones where they have freight advantage over us, for instance eastern Saskatchewan, and probably southwestern Saskatchewan.

If we changed our shipping point, which we frequently do, it will mean a drastic general price change in the area affected.

We could possibly equalize our prices over the greater portion of Saskatchewan to get the same net return as we now get, but this will be impossible in eastern and southwestern Saskatchewan unless we reduce our Regina price by at least 3 to 4 cents per gallon.

If prices are to be based on Regina it is inevitably going to mean a general readjustment of prices in Saskatchewan. Points adjoining Regina will benefit, whereas an equal number of points will inevitably have to have their price raised anywhere from 1 cent to 3 cents per gallon.

We presume this Act was inspired by a similar Act in Minnesota, but the fundamental difference between the two is that in Minnesota group 3 is considered the source of supply, not Minneapolis. If Minneapolis were considered the source of supply it would mean turning over all the business in southern Minnesota to group 3.

There has been a great deal of agitation in regard to this particular thing. There are two gentlemen who at the present time admit in evidence that they intend to promote 25 co-operatives in western Saskatchewan. If they can get us to base the Saskatchewan price on Regina it will, of course, enable them to bring in their product from Montana considerably below our price. I saw a circular letter that they sent to all the co-operatives in Saskatchewan urging them to phone or wire or write their member, and the point they want to get over is this, that if we lower our price at one point to meet their competition we are supposed to reduce it at all points in Saskatchewan. Therefore, if we base our price on Regina, which means a high price in western Saskatchewan, it enables them in the first instance to cut our price, and in the second instance we are not permitted to meet that competition.

By Mr. Bothwell:

Q. What other commodity is there sold in Saskatchewan that has an average price throughout the province based on some other field of operation?—A. The Saskatchewan Government Liquor Department have a flat price on liquor over all Saskatchewan, and pay the express to intervening points as well.

Q. Is there any other commodity in general use?—A. Tires for instance have a zone price for I think all of the West. It is a very common practice.

Coming to the third solution: A price structure to be based on competition, that is group 3 and Montana; our contention is that this is the only equitable basis, and is the one in effect at the present time. Farmers sell their wheat based on world markets. If the farmer bases his price at which he sells his wheat on world competition, why do not we have the same right?

But someone will say that the farmer is not protected against world competition. How about the 5 cents per bushel on wheat that he got last year? This f.o.b. the elevator points amounts to considerably more protection than we have got, even if we took advantage of it in the West, which we did not.

The zone system is no new innovation by the Imperial Oil Company, but is used throughout the world by industries of every character. For instance they have a flat price for gasoline in all of England, exclusive of London. The oil companies operating in the State of Ohio have one flat price for gasoline for all points in that state.

Providing we net a small profit from gasoline on our Saskatchewan operations it really makes no difference to us whether we have a zone system, as at present, smaller zones, or an individual price at each sub-station. But any price structure of any character must be based on something. We contend that it should be competition with world markets, that is, group 3.

We have six refineries in Canada, located at Halifax, Montreal, Sarnia, Regina, Calgary, and Vancouver. These six refineries were built to meet competition in all parts of Canada, not only the immediate area in which they happen to be located. Surely no one will contend that we should have a refinery in every area in order to meet competition, or that on the other hand we should turn over all the business in Manitoba to our competitors because we happen to have no refinery there. If our refinery had been built at Winnipeg or Brandon our price structure in Saskatchewan would have been approximately the same as it is to-day, the only difference is Regina would be minus its largest industry.

The contention that our price zone system in Saskatchewan or any other province was designed for price descrimination against our competitors is not only untrue, but the facts are that it is we who are being discriminated against, with no opportunity to protect ourselves. Co-operatives, private tankage operatives and others in various parts of Saskatchewan are cutting our prices, and making heavy inroads into our gallonage, but we have refrained from meeting such price cuts, because our doing so would be immediately construed as an effort on our part to put these small companies out of business. The oil companies in the United States have not such compunctions, price cuts by small operators are immediately met,—and that includes the state of Minnesota—even when it means doing business at a loss. Therefore the price structure in the United States at the present time is not nearly so equitable as the one we have in Canada.

To illustrate; the retail price at Denver, Colorado, is 1·2 cents per imperial gallon lower than at Casper, Wyoming, from where it draws its supplies. Denver is 407 miles from Casper, and the freight is 2·9 cents per imperial gallon. Therefore gasolene sold at Denver nets the oil companies 4·1 cents per gallon less than if sold at Casper.

Or take for instance Detroit, which draws its supply from mid-continent oil fields. The freight from group 3 to Detroit is 4·4 cents per imperial gallon, yet Detroit is selling gasolene to-day 1·8 cents per imperial gallon cheaper than Dallas, Texas, in the heart of the oil field.

By Mr. Donnelly:

Q. Why take the imperial gallon in comparing prices?—A. I am taking the imperial gallon all the way through, everywhere. To make it comparative.

In other words, taking freight into consideration, the net price at Detroit is 6·2 cents per gallon less than the price at Dallas, Texas.

The above illustrations are two just picked at random, I might quote many more.

To draw a parallel picture in Canada, it is the same as though our net realized prices at Edmonton and Saskatoon were 4 and 6 cents per gallon lower than at Calgary and Regina.

To talk about our present zone system in Canada being discriminatory in order to strangle competition, is unwarranted.

By Mr. Bothwell:

Q. Have you any map showing those particular zones in Saskatchewan?—A. The Hon. A. C. Stewart asked me for the Saskatchewan zones, so I gave him the Alberta zone, the Saskatchewan zone, and the Manitoba zone. I have no copies left. In Saskatchewan there are five zones, Mr. Bothwell, one to five. The average margin in zone two is 5·40, that is between tank car and tank wagon. The average margin in zone three is 5·32; the average in zone four is 5·55, and the average in zone five is 5·87.

Q. What is one?—A. And in zone one, which is southwestern Saskatchewan it is 3·99.

Q. Why the difference there?—A. We are competing with Montana. At one time they sold a lot of distress gasolene and kerosene and distillates in that section, and we would be warranted, I presume, in raising prices in that section, but we hesitate to do so.

Q. You say at one time there was considerable distress gasoline? How about now?—A. There is not so much.

Q. None coming in from Montana?—A. Not so much, no, sir.

Q. What is the reason?—A. The present price of distillate, so I understand, in Montana, is 11 cents a wine gallon, exchange, sales tax, excise tax included, exclusive of duty, of course, which works out about 15·7 per gallon on the Canadian side, and we are selling a superior grade distillate at 16½ down there.

Q. That is distillate. How about your gasoline? It is gasoline we are discussing.—A. We will come to that. I am leaving copies of evidence here covering—

Q. I just wanted to find out why you have it at 3·99 in zone one, and 5·87 in zone five.—A. I cannot do any more than say it was based on this distress competition, and we would be justified in raising our prices there, but we hesitate to do so.

Q. You have not got that competition now, but you are maintaining this difference?—A. No, but if we raise our prices, it means those farmers down there, who are having a very difficult time, would have to pay a cent a gallon more.

Q. You gave us your comparative price of distillate there. Why not give it to us on gasoline.—A. I certainly will be very glad to. I think I will have to hurry along. All the comparisons which we make with United States prices, that is tank wagon, retail or tank car, are exclusive of duty and dumping. We have taken the cities of Fort William vs. Duluth, Winnipeg vs. Minneapolis, Brandon vs. Grand Forks, Regina vs. Minot, Calgary vs. Helena. We will just take Winnipeg vs. Minneapolis first. The tank wagon price in Minneapolis is 16·20; that is 19·44 an imperial gallon. I am giving the figures now as of September 1, 1930, before the tariff.

Q. You are going to put in a statement of the whole thing?—A. Yes, Sir.

Q. Possibly we had better leave that.—A. May I give you some of the high-lights?

Q. All right.—A. After explaining that, I shall hurry along. I gave you those figures, 16·20 and 19·44. The difference in freight from group 3 is 4 cents; the sales tax at that time was 1 per cent, ·07, and that made a total of 23·51. Our price at Winnipeg at that time was 21, a difference in favour of the Canadian price of 2·51. At that time, September 1, 1930, the comparison between Regina and Minot, was ·37, in favour of Minot. Let us take to-day's prices of gasoline; that is, by tank wagon. On the basis which I have just described, Fort William is—

Q. Can you stay with Winnipeg?—A. All right. Winnipeg is 2·08 lower than Minneapolis.

By Mr. Donnelly:

Q. What are the prices; give your prices.—A. The price at Minneapolis is 13·30.

Q. That is at the present time?—A. Yes.

Q. It has gone up a little?—A. That is all I know, 13·30. I am sure you will find that accurate.

Q. In November and December, I see it was 11·4; that is imperial gallon, yours.—A. No sir, 15·96 per imperial gallon.

Q. It is a wine gallon I am referring to. I see in the months of November and December, it was 11·4. I was wondering when it was raised.—A. I do not know the exact date. These figures I am quoting you are February figures.

Q. February, 1931?—A. February, 1932.

Q. All right.—A. At that time the difference in favour of Winnipeg—

By Mr. Bothwell:

Q. Just go on. You gave the price at Minneapolis at 13·30.—A. Converted to an imperial gallon, it is 15·96. The difference in freight from group three, is four cents, freight surcharge, 9 per cent, which is ·66, sales and excise tax 5 per cent, ·27, exchange 14·81 per cent, ·69, the Minneapolis price laid down in Winnipeg 21·58. Our tank wagon price at Winnipeg is 19½.

By Mr. Donnelly:

Q. That is just the same as it was in December in Winnipeg?—A. In other words, over 2 cents in favour of the Canadian price. The exchange at that time—

By Mr. Bothwell:

Q. I do not yet understand where you get those different prices which you gave us before. The first of those prices which you gave us at Winnipeg, was 20·33, and now you give to-day's prices at Winnipeg at 19·50.—A. The Winnipeg division, so called, takes in about half of Manitoba.

Q. That is all right. Why do you make a difference in making up your figures? At one time you take the Winnipeg division, and at another time you take Winnipeg.—A. It does not make the slightest difference; we can make them up either way. We thought we would compare cities.

Q. That is it?—A. It would not make the slightest difference which way we figured.

By Mr. Stanley:

Q. Let me have the Calgary figures.—A. Calgary?

Q. As compared with Helena.—A. Helena?

Q. In September, 1930.—A. All right, sir, gladly. Helena, September 1, 1930, 19½ cents a wine gallon.

Q. Never mind the details, just give me the difference.—A. The laid-down prices at Calgary on the basis of Helena prices, 26·59; our prices at Calgary 23½, a difference of 3·09 in favour of Calgary prices.

Q. Let me have to-day's, or February, 1932.—A. February, 1932, the laid-down price at Calgary, based on the Helena prices, 23·25, the Calgary price 21, a difference in favour of Calgary of 2·25. I will file this as evidence, because these figures are hard to follow; but the general purport of the figures I have just given is, that if there were no refineries in western Canada, and if there were no duty or dumping, the tank wagon prices in Winnipeg, Regina and Calgary, and other points would be higher than it is to-day, based on tank wagon prices across the line. We will submit a detailed statement as evidence.

By Mr. Campbell:

Q. You stated your prices are exactly the same or just about the same as they were before the tariff enactment, but you did not mention whether there had been any change in the outside world since, in the United States, for instance.—A. You are all familiar with conditions in the United States at this time, in the oil business. The statements which I am submitting in all cases, show the prices September 1, 1930, before the tariff enactments and to-day, compared with United States prices.

Q. Your contention is that your company has not taken any advantage of the tariff whatever; is that it?—A. The figures in the west are very self-conclusive in that regard.

By Mr. Donnelly:

Q. You are selling in western Canada below what it could be laid down from the United States?—A. Both tank wagon, steel barrels and tank cars. We are slightly out of line on retail prices. I will come to that later.

Q. Your real competition with them is in tank car lots from the United States. You cannot bring it in in small quantities, except right along the line. —A. In tank cars we are selling less than duty free imported gasoline, or duty free imported kerosene.

Q. You do not need any duty at all?—A. We will come to that later.

By Mr. Campbell:

Q. In regard to this question of selling on time. You claim you have been accused of discrimination by the co-operatives, because you sell on time. The assumption is when you sell on time, you have to add the losses on bad debts on to the price, and otherwise you would sell cheaper. Is that true?—A. In Saskatchewan, although our losses have been heavy, all that we have charged against marketing expense is ·37 cents per gallon, or roughly ⅓ per cent per gallon.

By Mr. Ganong:

Q. What percentage would that be?—A. I cannot tell.

Q. Just roughly?—A. It is very small. If I might hurry along; my time is limited. I will come back to that, perhaps. I was going into further details, but we will submit this statement as evidence, a comparison of tank wagon prices on gasoline in various cities in western Canada vs. Parallel cities in the United States on September 1, 1930, and February, 1932. We will submit similar statements covering kerosene prices by tank wagon, on those two dates. We will also submit tank car prices prior to the tariff enactment of 1930 and to-day, and if that is put into the evidence, I think it could be studied at leisure. There are one or two things in regard to tank car prices I wish to point out.

By Mr. Donnelly:

Q. Just a moment. These prices that you are giving at the present time; are they for your cheap gasoline?—A. No, sir.

By Mr. Bothwell:

Q. You are talking about your premier gasoline?

By Mr. Donnelly:

Q. All the way through?—A. In every case our premier gasoline, and Royalite kerosene. The average laid down price in all of Saskatchewan and duty free imported gasoline in tank cars, is 20·04.

By Mr. Arthurs:

Q. Imperial gallon?—A. Yes; our average laid down tank car price in all of Saskatchewan is 24·44. If he were to import duty free gasoline, the co-operatives secures a margin of 4·44. By buying from us,—and he gets a superior grade of gasoline, superior service,—he makes a margin of 5·27. If the co-operatives and private operators in Saskatchewan imported duty-free kerosene, his margin would be 3·21 under tank wagon; whereas by buying from us, his margin is 4·57 in tank wagons.

Now, we would like to explain very briefly why these tank prices are absolutely out of line with cost. Someone said, "You apparently do not need duty." These tank car prices are too low, and I am sure you will be interested in knowing how it happened. Prior to the tariff enactment of 1930, our base tank car price on gasoline in the three prairie provinces of 8·80 cents per imperial gallon, f.o.b. group 3, was based on our being compelled to meet the competition of American duty free 64 gasoline if we wished to maintain our gallonage until existing conditions righted themselves. On the other hand, our tank wagon prices on gasoline in the west were based on cost plus a reasonable profit. This resulted, at that time, in an abnormal spread between tank car and tank wagon prices. In Saskatchewan, for instance, such spread ranged from 6 cents to 7½ cents per imperial gallon.

Our only saving when we sell gasoline in tank cars as against its sale by tank wagon is one of reduced marketing expense. Therefore, from a standpoint of cost, tank car prices in the west should be only approximately, 3 cents per gallon below our tank wagon prices.

However, the co-operatives, who purchase their gasoline requirements in tank cars—insisted that the abnormally high differential that obtained between tank car and tank wagon prices prior to the tariff enactment should be continued indefinitely, and cite our pledge not to raise prices on gasoline to consumers as their justification for such a stand. The co-operatives insist that any reduction in tank wagon price on gasoline must be accompanied by a similar reduction in tank car price—or, inversely, that tank car prices cannot be raised unless tank wagon prices are raised correspondingly.

How has this worked out in actual practice?

By Mr. Bothwell:

Q. Can you tell me how many co-operatives there are, and who they were that made those representations?—A. May I just finish this little statement, please?

Q. All right?—A. This was written August 22, last year, during a period of heavy consumption, not mid winter. This was during the period when the farmers were buying a lot of kerosene and gasoline. As we had reduced our tank wagon price on gasoline since September 15, 3 cents per gallon in Manitoba and 4 cents per gallon in Saskatchewan and Alberta, we had been automatically forced to reduce our tank car prices correspondingly. As a result, our base tank car price per imperial gallon, f.o.b. group three, on August 22 last year was 5·80 cents for Manitoba, and 4·80 cents for Saskatchewan and Alberta, as compared with a price of 5·00 cents per wine gallon obtained by the mid-continent refiners. In other words our Saskatchewan and Alberta tank car prices on August 22 last year was 1·2 cents per imperial gallon below the price at which American gasoline could be laid down duty free.

Or, looking at same from another angle—mid-continent refiners who sold their gasoline f.o.b. group three for 6·00 cents per wine gallon on September 15th, 1930, were obtaining 5·00 cents per wine gallon on August 22, 1931, or a reduction of only 1 cent per wine gallon, or 1·2 cent per imperial gallon, as compared with our reduction of 3 cents and 4 cents per gallon, respectively, for the same period. Nor should it be forgotten that our tank car prices on gasoline on September 15th, 1930, were already on an unprofitable basis.

We had hoped that the tariff enactment of 1930 would give us at least some measure of relief against having to meet abnormally low tank car prices on gasoline prevailing in the mid-continent field, but instead of protection, we are to-day being forced to sell gasoline in tank cars in the west at a lower price than if there were no tariff.

By Mr. Campbell:

Q. How do you explain that?—A. Our tank car prices were very low in September, 1930, to meet duty-free distress competition. When we reduced our tank wagon prices four cents, we also reduced our tank car prices four cents, which made our tank car prices altogether too low.

Q. To make use of the tariff, you are forced to——A. May I finish this statement, please? The conditions above referred to have been brought about by a misunderstanding in regard to our pledge. There are three major methods by which we market our gasoline: (1) Retail, that is service stations; (2) wholesale, that is tank wagon; and (3) jobbers, that is tank cars. The Co-operative Oil Company that buys its requirements of gasoline in tank cars is to all intents and purposes an oil jobber. When we pledged ourselves not to raise the price to consumers without a corresponding increase in cost, we took it for granted that the term " consumer " did not include tank car buyers.

As we could not justify quoting Co-operative Oil Companies a lower tank car price on gasoline than we quoted to others who also purchased their requirements in tank cars, we are forced to sell any jobber who can invest $2,000 in an oil plant, his gasoline and kerosene at an abnormally low tank car price, which enables said jobber in turn to demoralize our retail and tank wagon sales by secret concessions or open price-cutting. And there are scores of places in the west where those private operators and co-operatives, enjoying the advantage from the special price of tank car prices, are cutting our prices. I have the names of them.

Q. While you are on the question of tank car prices, may I be permitted to make this remark. You have not altogether cleared up this point in respect to whether or not your working agreement with the British American, the Puritan Oil, and the other major oil companies is different from that of any other oil company. You have not told us whether or not you sell to them cheaper than you do to the other jobbers.—A. As I understand it, what you are trying to get at is the price to the consumer, and the price which I have just given you for the west indicates that the consumer out there has certainly had—

Q. No, that is not the whole question. You might put a co-operative out of business by selling cheaper or reducing the price to the consumer, and ultimately when you put the co-operative out of business, the consumer in the long run will pay. The inference in this letter is that you are selling to those other companies cheaper than you are selling to the co-operatives.—A. That question has already been covered in previous evidence, whether we are supposed to reveal all our contracts, and I believe the chairman has ruled on it.

Mr. DONNELLY: You are not asked about your contract; you are asked if you are selling cheaper.—A. Well, it is only natural that a man who buys 500 tank cars would get a somewhat better price than the man who buys one tank car. That holds true in any line of business.

Q. I am not asking that. The point I would like to get is this: I want to know whether or not it is true. I understand that you are actually selling cheaper to the British American, the Puritan Oil and some of the other companies than you are to the smaller companies. I would take that to be your answer.—A. Any person who buys in large tank car quantities is entitled to a somewhat better price than those who buy only in small quantities.

Mr. DONNELLY: That has already been given in evidence.

The CHAIRMAN: Yes, that has been covered before.

Mr. BOTHWELL: So far as the McColl-Frontenac and the British American Oil companies were concerned.

Mr. DONNELLY: They were buying it cheaper.

The WITNESS: As the time is getting on, I think I am ready for questions.

The CHAIRMAN: Mr. Halverson points out the time is passing rapidly, and he wants to give the committee an opportunity to ask questions; therefore, any member who has a question to ask Mr. Halverson, may now ask it.

By Mr. Bothwell:

Q. Are you through with your statement?—A. Well, not exactly. There is one thing I would like to mention, if I may. I understand that the committee at Regina have listened to a great deal of evidence about price fixing, and that the small fellows were afraid to cut the price. We would like to have this opportunity of presenting our side of the story. As our average profit per gallon on gasoline throughout Canada in 1930 was but 1·01 cents per gallon, it is obvious that the competitors do not have much scope for starting a price war without running into heavy losses. I would also like you to hear the evidence given at Regina by Mr. Hagerman, liquidator of the Maple Leaf Refining Company, Coutts, at page 574. The questions and answers are as follows:—

> Q. You were afraid they (Imperial Oil) might meet you in a price war?—A. We were not trying to make a price war, we were trying to sell the product we had.

Q. Your evidence was if you took $\frac{1}{2}$ cent per gallon less you would not have made a profit?—A. Half a cent per gallon less we would have made a loss.

Q. So it would not have taken a very big price war to put you out of business?—A. No, I should say not.

There is no attempt on our part to dictate the price at which the competitor must sell his products, that is his business. Naturally we reserve the right to meet bona fide competitive prices. We do our business openly and above board; we have no secret service station or tank wagon prices. Any farmer, dealer, journalist, or competitor can call us on the 'phone regarding these prices and we have no reason to refuse telling them what they are as we have nothing to conceal.

Further, if we make a general price reduction, the competitor soon gets wise to it and follows suit. If we make a general price advance he likewise learns of it through his agents or salesmen and is usually eager to raise his price correspondingly in order to secure the added profit without any hints or collusion on our part.

We naturally set the prices at which our service stations and agents must sell; beyond that we do not go. A dealer—and we supply approximately 20,000 dealers in Canada—can sell gasoline at any retail price he chooses. This often embarrasses some of our other good customers in the same community, but so far we have taken the stand that we will not refuse to sell a price cutter, even though it embarrasses us to do so.

Q. Read that again.—A. There is one, just one case in Victoria that I know of.

By Mr. Stanley:

Q. We had that too.—A. Out of 20,000 customers, that is not so bad. Nor do we attempt to fix the prices at which a co-operative or private tank must sell. In scores of cases in western Canada they have been cutting our posted price, and making heavy inroads into our direct gallonage, but even under those conditions we continue to sell them.

Now this is a point I wish to bring out in that connection. To my knowledge in western Canada we have never sold below the prices that the co-operatives and small jobbers sell at. There has been no effort at any time, at any place, to put anybody out of business. If there is any price cutting, the initiative always comes from them. There are scores of places where they have reduced prices. We have not met it, and we think, of course, we should have the right to meet it, providing they cut the price first. I do not think anyone will contend that we should hand all the business over to them. I want to reiterate, as emphatically as I can, that in no case do we cut our posted price first.

By Mr. Bothwell:

Q. From the figures you gave, I understand you do not cut your prices?—A. No. This evidence that those fellows are afraid to cut prices because we put them out of business, is untrue. We have more than given them a fair break. They go on cutting prices on account of this low tank car price they get, and we let them get away with it.

By Mr. Stanley:

Q. Now then, Mr. Chairman, with regard to the cost in Alberta. He has not dealt with that.—A. I am not a manufacturing man; I am only a marketing man.

Q. You have the cost and the prices?—A. I can give you—

Q. We have had evidence that would lead to this conclusion, taken at any refinery, the cost of the gasoline to the consumer, well now, at Calgary—I presume if we take the cost of crude naphtha at Turner Valley at 2·88 per barrel, 60 per cent of that being used, plus the heavy crude from Montana, at its cost per barrel, 40 per cent of that being used, plus refinery charges, plus the same profit that we get in other parts, you will get the price which the consumer is paying in Alberta.—A. I am not—

Q. I am not making that as a direct assertion. The statement is made very frequently on every hand, that the Alberta consumer does not get the benefit of Turner Valley, and of his proximity to the heavy crude, which you bring in from Montana. You show some figures; you have shown a considerable difference; when you compare the freight to Winnipeg, the freight to Calgary, you show a difference in favour of Calgary of four cents.—A. 4·31, in spite of the high price we have to pay for Turner Valley crude.

Q. That will explain it to some extent. That may be explained, and is explained by the proximity of the Calgary refinery to your supply of heavy crude in Montana.—A. The comparisons we give, Calgary and Montana prices, are strikingly in favour of Calgary.

Q. I realize that.—A. And they have an oil field in Montana.

Q. What I am getting at is, how much benefit is the actual consumer in Alberta getting by reason of the actual proximity to Turner Valley and to the crude naphtha supply in Turner Valley, and in Alberta, and in Montana, which is his next door neighbour.—A. I am not familiar with costs; I cannot answer your question.

Q. From the Alberta standpoint, and the standpoint of the Alberta consumer, that is a very important piece of evidence, which the Imperial Oil has not brought out, and which I think should be brought out. However, you cannot give it, so we will let it go.—A. I will be glad to explain regarding gasoline distillate prices, supplied from Calgary if you are interested.

Q. What is that?—A. Gasoline distillate prices.

By Mr. Ganong:

Q. Your bad debt allowance, is that allowance on what you ship to the farmer in Saskatchewan only, or the allowance on all your business in the west? —A. It is on our business in the west, which should have been a great deal more, as far as Saskatchewan is concerned. Supposing we get a profit in Saskatchewan on our direct business, that is our tank-wagon, and our steel barrel business, of 1·66 cents per barrel, it will take us seven years to get back in profits what we have outstanding in our books in Saskatchewan now. In other words, we will be operating seven years for nothing, providing we do not collect. However, we have every confidence that we will eventually collect most of it.

By Mr. Bothwell:

Q. Are your agents responsible for those debts?—A. No, sir.

By Mr. Spencer:

Q. May I ask the witness, if the Imperial Oil has been able to supply all the distillate required, or have you had to hold out—A. The only division where we are supplying gasoline distillate, is the Calgary division. When we get outside of that, we are running into freight rates that are against us. In that connection—

Q. You have been able to give them all they wanted in that division?—A. Yes; we carry it at every point in the division.

Q. How wide would a division be?—A. It takes in roughly that part of Alberta south of Red Deer.

Q. Would it go as far as Red Deer?—A. A little north of Red Deer. If we supplied Saskatchewan from Calgary, based on our Calgary tank wagon prices which we consider very low, the Saskatchewan price would have to be raised two cents per gallon.

By Mr. Stanley:

Q. The freight enters into that.—A. Yes, Sir.

Q. I realize that. I am speaking of the district more contiguous to the actual refinery, and the actual field.—A. We sell heavy crude naphtha at the wells at ten cents, and we are glad to supply any farmer that comes.

Q. I appreciate our farmers are given a very distinct benefit there.—A. But there is one point in connection with marketing expenses, a competitor or a private operator goes in, and he picks out what we call the cream of the business; he locates some place where there is a lot of business. He just picks out the cream; we have to serve all of Canada. Now, that means that in southern Alberta, if we closed our warehouses because we were not making a profit—when the farmer has lots of time he goes to the wells in the field, in the fall of the year—it would be just too bad. For instance, two or three years ago, with our 1,300 branches in the west, when they had a good crop, we worked day and night to keep the farmer supplied. They had about two weeks of good weather, when it started to rain, and it rained and rained all fall. You know how the crops deteriorated. You can see the responsibility that would have been ours if, during those two weeks, we had fallen down supplying them when the sun was shining. That means when that rush is over, we have to carry most of the staff until next spring, because we cannot put them on the streets, whereas those private operators simply pick out one point where there is a nice profit, and that is all they have to worry about. It makes a great difference.

I might also mention as information that the state of Ohio has an automobile registration of 1,750,000, which is over 50 per cent more than all of Canada. Western Canada has only 300,000 automobile registrations. Just think of the difference there is in doing business. The state of California has over 2,000,000 automobile registrations. Coming back to the state of Ohio, their sales of gasoline for last year, were 1,000,000,000 gallons in a small compact area, and when we compare our prices with United States prices, that should be certainly kept in mind, the tremendous difference in operating expenses up here.

By Mr. Bothwell:

Q. In quoting those prices in the United States of cost of gasoline, if it is brought over to Canada, you have quoted always the posted price in those various cities.—A. Yes, Mr. Bothwell.

Q. Have you any idea what proportion of the gasoline that is marketed in these points is purchased at those posted prices?—A. No; I have no way of knowing, but a very very substantial proportion of it. Otherwise those posted prices would be reduced.

Q. Instead of the figures you gave, the fact is, is it not, that you can buy gasoline retail in the United States, bring it into Canada, pay the duty on it, pay the freight on it, and have it laid down cheaper than you are able to buy it from the Imperial Oil?—A. Well, the difference in western Canada on retail prices is in favour of the United States. That is because down there the tank wagon price and the retail price is just the same.

Q. Well, not only in western Canada, but right in Ontario.—A. Yes.

Mr. Stanley: Is that bootleg gas to which you are referring?

Mr. Bothwell: No, I am referring to quality gasoline.

The Witness: But we are submitting a statement in the west covering our retail prices versus retail prices across the line, which will be self-explanatory. That indicates that we are not meeting it exactly, but under the demoralized retail conditions prevailing down there, I think we are doing remarkably well.

By Mr. Donnelly:

Q. You say the tank wagon prices and the service station prices are the same in the United States?—A. Yes, sir.

Q. Where?—A. Practically everywhere now; a few years ago there used to be a big difference.

Q. It does not show it here in the Petroleum News?—A. Well, my statement is very definite.

Q. It gives the service station and the tank wagon prices. For example, take Casper, Wyoming, 11 cents on December 7, tank wagon, service station 18 cents?—A. There may be some exceptions throughout the length and breadth of the country.

Q. Well, take Cheyenne, Wyoming, it is 10 and 14; take Salt Lake City, 13·5 and 20·5; Boise, Idaho, 15 and 23; Twin Falls, Idaho, 15 and 21.—A. The gasoline tax is added in there, I think.

Q. That makes a difference.—A. There is no difference. It must be added.

By Mr. Bothwell:

Q. They would include the state gasoline tax in the service stations.—A. Yes. I am making this definite statement—of course, I am careful in giving testimony to this committee. In Minnesota, North Dakota and the major portions of the United States, at the present time the tank wagon and retail prices are exactly the same.

By Mr. Donnelly:

Q. Take another example, Boise, Idaho, 15·5 tank wagon, the state of Texas, 23·5, eight cents of a difference.—A. The difference you speak of is accounted for by the gasoline tax.

Mr. Arthurs: What date?

Mr. Donnelly: On November 2, 1931.

The Witness: I was making my comparison with Minnesota and Montana. I am absolutely correct when I say the tank wagon and the retail prices are exactly the same.

By Mr. Bothwell:

Q. Coming back to your reduction of five cents a gallon in kerosene. In the statement that was sent out on June 10, 1931, you say that your reduced price is predicated on the reduction in the price of crude oil. How long have you maintained that reduction of five cents?—A. Until after threshing, as we had promised to do.

Q. Until after threshing?—A. Yes; although in the meantime there was an advance in crude oil, we kept our pledge.

Q. What amount of advance was there to crude oil?—A. From 62 cents per barrel to 77.

Q. That would be a difference of 15 cents per barrel advance?—A. Fifteen per barrel advance; but having promised the farmer we would not raise prices until after threshing, we did not do so.

Q. What difference would 15 cents per barrel in the price of crude oil, make in the price of kerosene per barrel?—A. Mr. McCloskey has already covered that in his evidence. I am not familiar with the manufacturing problems, Mr. Bothwell.

Q. It could not possibly amount to five cents, could it?—A. Showing that the farmers got the benefit, or 96 per cent of them.

Q. When your prices went back after threshing, did they go back to the original figure?—A. No, just three cents under gasoline; it is three cents under gasoline now.

Q. What was it prior to your change?—A. In June?

Q. Prior to June 10.—A. Prior to that time it was—I do not exactly recall, I think it was two cents. I am not sure.

Q. You have not got the figures there?—A. No, I do not think so.

Mr. Bothwell: It seems to me, Mr. Chairman, those satements that Mr. Halverson has filed will take some time to study by the committee before we can go on.

The Chairman: I think they will.

Mr. Stanley: May I make one further statement. I think it is only fair to both the Imperial Oil and the Regal Oil, who are refineries—as I understand it, the Regal Oil Company have acted as a refinery for the production from several of the independent wells in the Valley. They have been refining oil in a small way, true. But it is fairly a substantial way to meet competition given them by the Imperial Oil in the business there. Last year 1931, my advice is they lost, in their operations, $21,000.

The Witness: I would not be surprised.

That pretty well answers the question whether there is too big a disparity between the price structure in Alberta and the cost of the crude oil.

Mr. Stanley: I would not say that is a necessary conclusion.

By Mr. Bothwell:

Q. In December last year, you raised the price of kerosene 3½ cents a gallon. —A. I will be glad to file any figures on kesosene you wish.

The Chairman: Has this any bearing on the inquiry?

Mr. Bothwell: Only from the evidence the witness has given explaining the reduction in kerosene. I think we might as well clear it up?—A. The price of kerosene and gasoline was exactly the same, because there is really no difference in its manufacturing cost.

By Mr. Donnelly:

Q. In June?—A. Prior to June.

Q. After June?—A. But now kerosene is selling throughout the west at 3 cents less than gasoline; that is our present policy.

By Mr. Bothwell:

Q. You do not know when that last price was fixed?—A. It was in November or December.

The Chairman: December 10.—A. Yes.

By Mr. Bothwell:

Q. Are you the salesmanager of the company? Have you knowledge of your service stations throughout the west?—A. Yes.

Q. Have you knowledge of the manner in which they are operated, and the profits made?—A. Yes.

Q. How many service stations have you?—A. We have about 600 in Canada. Taking our total business as a divisor, the extra marketing expenses caused by those service stations over wholesale prices is ·0015, or $\frac{1}{6}$ of a cent; in other words, we are realizing on our total business, $\frac{1}{6}$ of a cent less than if we were selling it all to dealers. I can support that with figures. I think sometimes we over-emphasize how much the average consumer is paying for service station services.

Q. What I want to get at is, when you distribute it out and get your gallonage, as you say, that is what it amounts to, $\frac{1}{6}$ of a cent.

By the Chairman:

Q. In the west, or in Canada?—A. That is in Canada. We do not have many in the west.

By Mr. Bothwell:

Q. Do you know what profit you make on your investment in service stations?—A. No; we do not figure it that way. We figure how much do we net under the wholesale price. When we sell to a dealer, we get wholesale price.

Q. In tank wagons?—A. Yes. And we attempt to get the same price through our service stations. We cannot quite net that, of course.

Q. All but $\frac{1}{6}$ of a cent?—A. That in the ultimate analysis is what the consumer pays.

The Chairman: Now, gentlemen, I have no desire whatever to limit the examination of this witness, but our time for this session is exhausted, and perhaps we had better adjourn.

Mr. Bothwell: It occurs to me, Mr. Chairman, that with the amount of evidence that is going to be filed here, which will require some study, together with the fact that our auditors are getting certain information from the different refineries, that other questions may arise, which may make it necessary that Mr. Halverson or Mr. McCloskey be here. I do not know that we will be any further ahead by continuing this discussion this afternoon.

The Chairman: I think it would be better to adjourn at the call of the chair. After consultation with the sub-committee appointed to name witnesses, it can then be decided when the next meeting will be.

Mr. Bothwell: As I understand it, we will have an opportunity to call on Mr. Halverson again, if it becomes necessary.

The Chairman: Yes, we are not limited in that regard at all. The committee is entitled to call any witness who will give evidence pertinent to this inquiry; but I must point out the session is getting along.

Mr. Bothwell: We all realize that.

Committee adjourned at the call of the chair.

APPENDIX

COMPARISON AVERAGE GASOLINE TANK WAGON PRICES THROUGHOUT CANADA VERSUS HAMILTON

Based on Group Three

Division	December 31, 1931 (Incl. freight surcharge)			
	Group Three Freight	Freight Differ. over Hamilton	Hamilton T.W. Price Plus Freight Differ.	Average T.W. Price
Hamilton	6·11	....	....	17·57
Toronto	7·50	1·39	18·96	18·97
Montreal	8·64	2·53	20·10	18·87
Halifax	10·55	4·44	22·01	20·00
St. John	10·03	3·92	21·49	20·00
Winnipeg	8·55	2·44	20·01	20·33
Brandon	11·25	5·14	22·71	22·91
Regina	12·30	6·19	23·76	23·50
Saskatoon	13·95	7·84	25·41	25·77
Edmonton	16·48	10·37	27·94	25·32
Calgary	14·65	8·54	26·11	22·12
Vancouver	12·25	6·14	23·71	22·65
11 Divisions Avge	....	....	22·93	21·86

TORONTO, ONT., March 15, 1932.

COMPARISON OF U.S. AND CANADIAN CITIES TANK WAGON PRICES—GASOLINE

SEPTEMBER 1ST, 1930

(Without considering Duty or dumping)

—	Ft. William vs. Duluth	Winnipeg vs. Minneapolis	Brandon vs. Grand Forks	Regina vs. Minot	Calgary vs. Helena
Posted T.W. Price U.S. City	16·50	16·20	18·20	17·90	19·50
Converted to I.G.	19·80	19·44	21·84	21·48	23·40
Diff. in Freight	4·00	4·00	3·20	4·08	3·12
Freight Surcharge	....	....	....	....	....
Sales Tax 1%	0·07	0·07	0·07	0·07	0·07
Exchange	....	....	....	....	....
Total	23·87	23·51	25·11	25·63	26·59
Canadian T.W. Prices	22·50	21·00	24·00	26·00	23·50
Diff. in favor of Can. Prices	1·37	2·51	1·11	*0·37*	3·09

U.S. Motor, Group 3, 600 W.G. =7·20 I.G.

COMPARISON OF U.S. AND CANADIAN CITIES TANK WAGON PRICES—GASOLINE

(Without considering Duty or dumping)

February, 1932.

—	Fort William vs. Duluth	Winnipeg vs. Minneapolis	Brandon vs. Grand Forks	Regina vs. Minot	Calgary vs. Helena
Posted T.W. Price U.S. City	13·60	13·30	15·30	15·00	15·00
Converted to I.G.	16·32	15·96	18·36	18·00	18·00
Difference in Freight	4·00	5·00	3·20	4·08	3·12
Freight Surcharge 9%	0·70	0·66	0·79	0·95	1·17
Sales and Excise Tax 5%	0·27	0·27	0·27	0·27	0·27
Exchange 14·81%	0·69	0·69	0·69	0·69	0·69
Total	21·98	21·58	23·51	23·99	23·25
Canadian T. W. Prices	19·50	19·50	22·50	23·50	21·00
Difference in favor of Can. Prices	2·48	2·08	0·81	0·49	2·25

U.S. Motor Group 3, 3·91c. W.G. =4·69c. I.G.

COMPARISON OF U.S. & CANADIAN CITIES TANK WAGON PRICES—KEROSENE

SEPTEMBER 1ST, 1930

(Without considering Duty or Dumping)

—	Fort William vs. Duluth	Winnipeg vs. Minneapolis	Brandon vs. Grand Forkes	Regina vs. Minot	Calgary vs. Helena
Posted T. W. Price U.S. City	13·90	13·90	16·20	15·90	20·00
Converted to I.G.	16·68	16·68	19·44	19·08	24·00
Diff. in freight	4·00	4·00	3·20	4·08	3·12
Freight Surcharge	.....	.....	.....	.....	.....
Sales Tax 1%	0·05	0·05	0·05	0·05	0·05
Exchange	.....	.....	.....	.....	.....
Total	20·73	20·73	22·69	23·21	27·17
Canadian T.W. Prices	22·50	21·50	24·00	26·00	23·50
Diff. in favour of Can. Prices	*1·77*	0·77	*1·31*	*2·79*	3·67

42/44 W.W., Group 3
3·75 w.g. =4·50 I.G.

COMPARISON OF UNITED STATES AND CANADIAN CITIES TANK WAGON PRICES—KEROSENE

(Without considering duty or dumping)

September, 1931.

—	Fort William vs. Duluth	Winnipeg vs. Minneapolis	Brandon vs. Grand Forks	Regina vs. Minot	Calgary vs. Helena
Posted T. W. Prices U.S. City	9·90	9·90	12·20	11·90	16·00
Converted to I.G.	11·88	11·88	14·64	14·28	19·20
Difference in Freight	4·00	4·00	3·20	4·08	3·12
Freight Surcharge	.....	.....	.....	.....	.....
Sales & Excise Tax 5%	0·14	0·14	0·14	0·14	0·14
Exchange 7·69%	0·20	0·20	0·20	0·20	0·20
Total	16·22	16·22	18·18	18·70	22·66
Canadian T.W. Prices	17·00	13·50	16·00	17·00	14·50
Difference in favour Canadian Prices	*0·78*	2·72	2·18	1·70	8·16

42/44 W.W. Kerosene Group 3
2·19c W.G. equals 2·63c. I.G.

COMPARISON OF U.S. & CANADIAN CITIES TANK WAGON PRICES—KEROSENE
(Without Considering Duty or Dumping) February, 1932

—	Fort William vs. Duluth	Winnipeg vs. Minneapolis	Brandon vs. Grand Forks	Regina vs. Minot	Calgary vs. Helena
Posted T.W. Price U.S. City	10·00	10·00	12·30	12·00	16·00
Converted to I.G.	12·00	12·00	14·76	14·40	19·20
Difference in Freight	4·00	4·00	3·20	4·08	3·12
Freight Surcharge 9%	0·70	0·66	0·79	0·95	1·17
Sales and Excise Tax 5%	0·19	0·19	0·19	0·19	0·19
Exchange 14·81c. %	0·50	0·50	0·50	0·50	0·50
Total	17·39	17·35	19·44	20·12	24·18
Canadian T.W. Prices	17·00	16·50	19·50	20·50	18·00
Difference in favour of Can. Prices	0·39	0·85	*0·06*	*0·38*	6·18

42/44 W.W. Kerosene, Group 3,
2·81c W.G. =3·37c I.G.

COMPARISON OF U.S. AND CANADIAN CITIES RETAIL GASOLINE PRICES (EXCLUDING TAX)
(Without considering Duty or Dumping) September 1st, 1930.

—	Fort William vs. Duluth	Winnipeg vs. Minneapolis	Brandon vs. Grand Forks	Regina vs. Minot	Calgary vs Helena
Posted Retail Price vs City	17·50	17·20	19·20	18·90	22·50
Converted to I.G.	21·00	20·64	23·04	22·68	27·00
Difference in Freight	4·00	4·00	3·20	4·08	3·12
Freight Surcharge	....	....	....	....	....
Sales Tax 1%	0·07	0·07	0·07	0·07	0·07
Exchange	....	....	....	....	....
Totals	25·07	24·71	26·31	26·83	30·19
Canadian Retail Prices	24·50	24·50	27·50	30·00	27·00
Diff. in favor Candn. Prices	0·57	0·21	*1·19*	*3·17*	3·19

U.S. Motor Group 3: 6·00 c. W.G. =7·20 I.G.

COMPARISON OF U.S. AND CANADIAN CITIES RETAIL GASOLINE PRICES (EXCLUDING TAX)
(Without considering Duty or Dumping)
February 1932.

—	Fort William vs. Duluth	Winnipeg vs. Minneapolis	Brandon vs. Grand Forks	Regina vs. Minot	Calgary vs. Helena
Posted Retail Price vs. City	13·6	13·3	15·3	15·0	18·00
Converted to I.G.	16·32	15·96	18·36	18·00	21·60
Difference in Freight	4·00	4·00	3·20	4·08	3·12
Freigth Surcharge 9%	0·70	0·66	0·79	0·95	1·17
Sales and Excise Tax 5%	0·27	0·27	0·27	0·27	0·27
Exchange 14·81%	0·69	0·69	0·69	0·69	0·69
Total	21·98	21·58	23·31	23·99	26·85
Canadian Retail Prices	23·00	23·00	26·00	27·50	24·50
Diff. in favor U.S. Prices	*1·02*	*1·42*	*2·69*	*3·51*	*2·35*

U.S. Motor Gr. 2—3.91 W.G. =4,691 I.G.

City	September 1st-15th, 1930				February, 1932			
	Retail Gas Prices (Excl. Tax) Per I.G.	Less Dealers' Margins Per I.G.	Less Group 3 Freight Per I.G.	Net comparative Price	Retail Gas Prices (Excl. Tax) Per I.G.	Less Dealers' Margins Per I.G.	Less Group 3 Margins Per I.G.	Net Comparative Price
Fort William	24·50	3·50	7·76	13·24	23·00	3·50	7·76	11·74
Winnipeg	24·50	3·50	7·36	13·64	23·00	3·50	7·36	12·14
Regina	30·00	4·00	10·56	15·44	27·50	4·00	10·56	12·94
Calgary	27·00	3·50	13·04	10·46	24·50	3·50	13·04	7·96
Average	26·50	3·62	9·68	13·19	24·50	3·62	9·68	11·19
Duluth	21·00	3·00	3·76	14·24	16·32	3·00	3·76	9·56
Minneapolis	19·40	3·00	3·36	13·04	15·96	3·00	3·36	9·60
Minot, N.D	22·68	3·00	6·48	13·20	18·00	3·00	6·48	8·52
Helena, Mont	27·00	3·60	9·92	13·48	21·60	3·60	9·92	8·08
Average	22·52	3·15	5·88	13·49	17·97	3·15	5·88	8·94
Difference	3·98	0·47	3·80	0·30 (red)	6·53	0·47	3·80	2·25

U.S. Motor Group 3—
6·23c. W.G. = 7·48c. I.G. x Exchange .... ·09% ·01 (red)
Exchange ·01 (red) x Sales Tax .... 1·000 ·07
x Excise Tax ....
7·47 Frt. Surcharge c. I.G.. x %

Net difference per I.G. in favour .... ·06
Canadian Points (not includ. duty) .... ·36 (red)

U.S. Motor, Group 3—
3·91c. W.G. = 4·69c. I.G. x Exchange .... 14·81% ·69
Exchange ·69 x Sales Tax .... 4·00% ·22
5·38 x Excise Tax .... 1·00% ·05 0·5
Frt. Surcharge 9·68c. I.G. x 9·00% ·87

Net difference per I.G. in favour .... 1·83
U.S. Points (not includ. duty) .... ·42

U.S. MOTOR GASOLINE BASED ON PLATT'S OILGRAM QUOTATIONS

—	Sept. 1st, 1930	Oct. 29th, 1930	Feb. 11th, 1931	Mar. 14th, 1931	July 23rd, 1931	July 28th, 1931	Aug. 15th, 1931	Aug. 25th, 1931	Dec. 1st, 1931	To-day 1932	Without duty of any kind
Group 3 Tank Car Market	6·25 W.G.	5·25 W.G.	4·125 W.G.	3·50 W.G.	3·00 W.G.	3·125 W.G.	4·125 W.G.	5·125 W.G.	4·125 W.G.	5·00 W.G.	5·00 W.G.
Add 1/5th for Imperial gallon	1·25	1·05	0·825	0·70	0·60	0·625	0·825	1·025	0·825	1·00	1·00
	7·50 I.G.	6·30 I.G.	4·950 I.G.	4·20 I.G.	3·60 I.G.	3·750 I.G.	4·950 I.G.	6·150 I.G.	4·950 I.G.	6·00 I.G.	6·00 I.G.
Exchange								(16%)	0·79 (11%)	0·66	0·66
	7·50	6·30	4·95	4·20	3·60	3·75	4·95	6·15	5·74	6·66	6·66
Duty	1·00	1·00	1·00	1·00	1·00	1·00	1·00	1·00	1·00	1·00	0·00
	8·50	7·30	5·95	5·20	4·60	4·75	5·95	7·15	6·74	7·66	6·66
Excise Tax 1%					0·05	0·05	0·06	0·07	0·07 (3%)	0·23	0·20
Sales Tax 1%	0·09 (1%)	0·07 (1%)	0·06 (1%)	0·05 (4%)	0·18 (4%)	0·19 (4%)	0·24 (4%)	0·29 (4%)	0·27 (6%)	0·46	0·40
	8·59	7·37	6·01	5·25	4·83	4·99	6·25	7·51	7·08	8·35	7·26
Freight											
Surcharge on freight									1·18 (7%)	0·83	0·83
Emergency freight 1c. cwt									0·08	0·08	0·08
Market price all charges paid exclusive of freight	8·59	7·37	6·01	5·25	4·83	4·99	6·25	7·51	8·34	9·26	8·17
Imperial Oil base price exclusive of freight	8·80	7·80	6·80	4·80	4·30	4·80	4·80	7·30	7·30	7·30	7·30

You will note from the above that our to-day's price on gasoline is ·87 cheaper than duty free imported Distress Gasoline, in tank car lots, also that on August 15th last year, our price on Gasoline in tank cars was ·39c cheaper than imported duty free Distress Gasoline.

Toronto, April 7, 1932.

42/44 WATER WHITE KEROSENE BASED ON PLATTS OILGRAM QUOTATIONS

—	Sept. 1st. 1930	Oct. 29th 1930	Feb. 11th 1931	March 14th 1931	To-day 1932	Without Duty of any kind
Group 3 Tank Car Market	3·50 W.G.	3·50 W.G.	3·25 W.G.	3·00 W.G.	3·375 W.G.	3·375 W.G.
1/5 for Imperial Gallon	0·70	0·70	0·65	0·60	0·675	0·675
	4·20 I.G.	4·20 I.G.	3·90 I.G.	3·60 I.G.	4·05 I.G.	4·05 I.G.
Exchange					11%0·44	0·44
	4·20	4·20	3·90	3·60	4·49	4·49
Duty	2·50	2·50	2·50	2·50	2·50	
	6·70	6·70	6·40	6·10	6·99	4·49
Excise Tax 1%					3%0·21	0·13
Sales Tax	1%0·07	1%0·07	0·06	0·06	6%0·42	0·27
	6·77	6·77	6·46	6·16	7·62	4·89
Freight						
Surcharge on freight					7% 0·83	0·83
Emergency Freight (1c cwt.)					0·08	0·08
Market price all charges paid Exclusive of Freight	6·77	6·77	6·46	6·16	8·53	5·80
Imperial Oil Base Price Exclusive of Freight	8·00	7·00	6·00	4·00	5·00	5·00

You will note that to-day our tank car price is 0·80c per gallon cheaper than Duty Free Imported Distress Kerosene.

April 7th, 1932.

OILGRAM, APRIL 9/32

OKLAHOMA REFINERY MARKET—SASKATCHEWAN

U.S. MOTOR 57/65 OCTANE MOTOR GASOLINE AVERAGE PRICE — 42/44 WATER WHITE KEROSENE AVERAGE PRICE

—	(a)	(b)	(c)	—	(a)	(b)
W.G.	5·00	5·00	5·083	W.G.	3·75	3·75
Add 1/5	1·00	1·00	1·017	Add 1/5	0·75	0·75
	6·00	6·00	6·10		4·50	4·50
Exchange 10¾%	0·645	0·645	0·656	Exchange 10¾%	0·484	0·484
	6·645	6·645	6·756		4·984	4·984
Duty	....	2·50	2·50	Duty	....	2·50
	6·645	9·145	9·256		4·984	7·484
Excise Tax 3%	0·199	0·274	0·278	Excise Tax 3%	0·150	0·225
	6·844	9·419	9·534		5·134	7·709
Sales Tax 6%	0·411	0·565	0·572	Sales Tax 6%	0·308	0·540
	7·255	9·984	10·106		5·442	8·249
Avge. Ft. Group 3 to Saskatchewan	11·87	11·87	11·87	Avge. Ft. Group 3 to Saskatchewan	11·87	11·87
Frgt. Surcharge 7%	0·831	0·831	0·831	Frgt. Surcharge	0·831	0·831
Emergency Tariff	0·086	0·86	0·086	Emergency Tariff	0·086	0·086
Delivered Cost in Saskatchewan	20·042	22·771	22·893	Delivered Cost in Saskatchewan	18·229	21·036

mm

—	Delvd. Cost in Sask.	Avge. T/W Price	Diff.	—	Delvd. Cost in Sask.	Avge. T/W Price	Diff.
Duty Free Imported Gasoline	20·04	24·44	40·40	Duty Free Imported Kerosene	18·23	21·44	3·21
Our Base T.C. Pce.	7·30	....	....	Our Base T.C. Pce.	5·00	....	....
Plus Avge. Frgt.	11·87	....	....	Plus Avge. Frgt.	11·87	....	....
Laid down T.C. Price	19·17	24·44	5·27	Laid down T.C. Price	16·87	21·44	4·57

a—Without duty or dumping.
b—With duty but without dumping.
c—With duty and dumping.

a—Without duty or dumpig.
b—With duty but without dumping.

TORONTO, April 11th, 1932.

SESSION 1932

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

MONDAY, APRIL 18, 1932

No. 12

Reference.—Price of Gasoline

Report of Committee of Saskatchewan Legislature.

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1932

LEGISLATURE OF SASKATCHEWAN

REPORT OF SELECT SPECIAL COMMITTEE RE GASOLINE AND PETROLEUM PRODUCTS INQUIRY

REGINA, TUESDAY, APRIL 12, 1932

Mr. Eades, from the Select Special Committee appointed to inquire into the cost and sale of gasoline and petroleum products in Saskatchewan, and all other questions incident to the buying, selling, transportation and storage thereof; the importation of naphtha and distillate and the use of kerosene in tractors and the relative prices thereof, and correlated questions, presented the first and final report of the said Committee, which is as follows:—

Your Committee has had under consideration the matters referred to it, and, in connection therewith sixteen meetings of the Committee were held, numerous witnesses examined, and much valuable and interesting information and evidence obtained. It became apparent to your Committee, very early in its investigation, that the subject referred to it for consideration was even more intricate and involved than had been anticipated, and the evidence adduced at succeeding sittings of the Committee opened up further avenues which would require investigation if a searching and full inquiry was to be made. Limited as it has been in the time at its disposal and due to the fact that several important and necessary witnesses were not available by reason of their attendance before the Federal Committee on Banking and Commerce which is investigating similar matters at Ottawa, the Committee has not had the opportunity of completing its inquiries as it had contemplated. It is also of the opinion that, to make a full and complete investigation of the many phases relating to the production, processing and distribution of petroleum products, the services of skilled, technical experts would be required. Nevertheless, your Committee is of the opinion that the inquiry conducted by it has been of material value, and that the information adduced will be of benefit to the purchasers of petroleum products.

Your Committee wishes to record its appreciation of the information supplied by the various witnesses, the co-operation extended by all those interested in the matters under review, and the generous space allotted in the various newspapers to the evidence given before the Committee.

The question of Weight Charts was given serious consideration and much evidence in regard to their use was heard. While some of the charts formerly in use might, under certain conditions, be unfair to purchasers of gasoline, it would appear that all the larger companies are now using Weight Charts showing the weights for the various gravity tests, and your Committee consider this a material improvement. To make this improvement fully effective, your Committee is of the opinion that all dealers in gasoline and kerosene should be required to specify on all invoices and shipping bills, the specific gravity or grade of the product covered by such invoice or shipping bill. Further, your Committee is of the opinion that vendors of any volatile petroleum product should be required to display at their places of business proper weight charts and information as to the gravity or grade of the products offered for sale.

Your Committee further recommends that the Federal Department of Trade and Commerce, or other appropriate and competent department, should make a practice of taking samples, at frequent intervals, of the various petroleum products as offered for retail sale, to ensure that the products so offered are actually of the grade or standard which they are represented to be.

Much evidence was heard relative to the loss from evaporation, but this evidence was so conflicting that your Committee finds it impossible to reach a definite conclusion. It is apparent that the loss from this cause is considerably greater since the introduction to the market of lighter gasoline produced from the Turner Valley field or by blending processes. Not only does the agent have a greater loss from this particular type of gasoline, but the user also is subject to greater loss. That loss from evaporation does occur, is admitted, generally, and some provision now is being made for it. To ensure that this loss is not laid on the agent or passed on to the purchaser, your Committee would wish the matter further investigated, and to this end recommends that arrangements be made for careful tests of the actual loss from this cause, under ordinary working conditions, and preferably at some country point, such tests to be made with the co-operation of representatives of the oil companies, the dealers and the Government. Your Committee further recommends that the National Research Council be asked to make a study of this matter, to the end that uniform allowance may be made for evaporation as established by tests of the various grades normally marketed.

Evidence given to the Committee showed that the freight on petroleum products is charged on a basis of eight pounds to the gallon. This arrangement appears to have been in effect for many years, and may have been equitable when first placed in effect, when gasoline was not an important article of commerce. Your Committee, however, is of the opinion that it is not a fair arrangement under present conditions, and recommends that the Government take the question up with the Board of Railway Commissioners with a view to having the freight schedules on petroleum products placed on an equitable basis.

Your Committee recommends that the National Research Council be asked to investigate the practicability of the use of meters in the distribution of gasoline and kerosene, the evidence heard not being sufficiently conclusive to establish that meters have been perfected to a point that would warrant their compulsory use.

With regard to lubricating oils, your Committee did not have the time to give the question the consideration it deserves. It would appear, however, that considerable progress has been made toward the standardization of these products, but there is an impression in the minds of the public that many of them are being sold at excessive prices. Your Committee, therefore, recommends that the Federal Committee on Banking and Commerce be asked to full investigate the whole question of manufacturing costs and selling prices of lubricants.

It is evident that there is a very general demand of standardized forms of cheaper tractor fuels, and your Committee is of the opinion that every effort should be made by all those interested in the manufacture and sale of petroleum products with a view to providing such fuels, and, further, that the wholesalers should provide for the distribution of these products in all districts where there is a demand for the same.

Your Committee is further of the opinion that the producing, refining, sale and distribution of petroleum products is now a business of sufficient size and importance to warrant the Federal Government giving serious consideration to the advisability of placing it under some form of supervision and control, and, to this end, recommends that consideration be given to the practicability of placing such control and supervision under the Canada Grain Commission, enlarging the authority of that Commission as may be found necessary.

Your Committee has not had sufficient definite and detailed evidence as to the cost of refining to determine whether or not the advantages of free importation of, and lower freight rates on, crude oils is more than sufficient to cover the higher costs of refining, if any, in Canada, as compared with the United States. Your Committee recommends, therefore, that the Federal Committee on Banking and Commerce be asked to go fully into this matter.

While there is evidence of very keen competition in the matter of local distribution and retail sale of gasoline, there does not appear to be, in Saskatchewan, any real competition in its manufacture or sale in the larger quantities. Practically all gasoline retailed in Saskatchewan, and sold by companies other than the Imperial Oil Company, irrespective of who sells it, is refined by that Company, and that Company fixes the price and, in effect, determines the price which the consumer will pay without any outside competition whatever. Officials of that Company stated that the price was fixed on the basis of crude oil purchased in the group 3 field, and further contended that, although this crude was imported on the basis of lower freight rates than on the refined product and without any duty chargeable thereon, whereas duty is charged on the refined product, they were not taking advantage of such duty or freight rates in fixing prices on the product refined by them in Canada. The Committee is inclined to question these statements although figures were produced to show the prices on both sides of the international border, and it would appear that the Company may be taking advantage of the situation by allowing excess profits in the refining end of the business.

Purchasers of petroleum products in Saskatchewan do not appear to benefit in prices which they pay, as result of the operation in Regina of a large refinery, or from the nearness of the Alberta and Montana oil fields, and the refineries established in or near those fields.

The Committee is further of the opinion that the price of the refined product is fixed by the Imperial Oil Company for the whole of Saskatchewan, without any visible competition whatever, and the evidence of independent concerns to the effect that they dare not raise prices or cut prices for fear of going out of business should be further investigated.

Evidence was adduced before the Committee to the effect that the Maple Leaf Oil and Refining Company, Ltd., of Coutts, Alberta, was recently purchased, or a controlling interest acquired, by the Imperial Oil Company, Ltd. Before that purchase, the said Maple Leaf Company sold cheaper tractor fuel extensively to the farmers of Western Saskatchewan and Southern Alberta, but, following the purchase, the price of such product was raised six cents per gallon. This is a matter that should be further carefully investigated with particular attention to the question whether or not there is a real monopoly in this business.

Prices in Saskatchewan are based on the so-called group 3 crude oil prices, but, as importation of the finished product from the group 3 field has been largely diminished since the increase in the duty and the fixing of value for duty purposes, the Committee is of the opinion that this matter together with those questions referred to in the preceding paragraphs should all be fully investigated by the Federal Committee on Banking and Commerce.

Your Committee is of the opinion that prices of petroleum products in Saskatchewan should be based on the actual cost of those products at their place of manufacture in Canada.

Linked up with the question of base prices is the matter of the Zoning System. Like the prices, the zones in Saskatchewan are based on the supposition that products will be supplied from the group 3 field, and the price in each zone is a base price plus the freight from group 3. As has been already pointed out, importation of refined gasoline has practically ceased, and if the Committee's recommendation regarding the basis on which Saskatchewan prices should be established is carried out, the zones into which the province is divided would have to be re-arranged accordingly.

Your Committee is further of the opinion that an increase in the number of zones with a reduction in the spread between each zone might be more equitable, but has not sufficiently studied the matter to report definitely.

With regard to the purchase of their supplies from one refinery by all the wholesale distributors, some reference was made to a "guaranteed spread" agreement between the Refining Company and some of the larger distributors. Your Committee recommends that the Federal Committee on Banking and Commerce be requested to investigate this matter fully to ascertain whether or not there exists any such agreement and if so, whether or not it works any unfairness upon the smaller dealers.

The whole question of the quality, grades, sale, distribution and prices of petroleum products is of very great interest to a large proportion of our population, sufficiently great to warrant a most complete investigation. Your Committee has not had an opportunity to cover the ground as it would have liked. It believes that the Federal Committee on Banking and Commerce, which already is conducting an enquiry into such matters, is in a much better position to go fully into the whole question. Your Committee, therefore, recommends that the said Federal Committee be furnished with a summarized copy of the evidence obtained by this Committee together with a copy of this Report and that it be asked to continue its investigations to the fullest limits which may be found possible. In the event that the said Committee finds it impossible to complete its present enquiries, your Committee recommends that the Federal Government be requested to make provision for such further investigation as will provide a complete enquiry into the whole matter.

On motion of Mr. Eades, seconded by Mr. Agar,

Ordered, That the Report of the Select Special Committee appointed to enquire into the cost and sale of gasoline and petroleum products in Saskatchewan, and all other questions incident to the buying, selling, transportation and storage thereof; the importation of naphtha and distillate and the use of kerosene in tractors and the relative prices thereof, and correlated questions, be now concurred in.

SESSION 1932

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

TUESDAY, APRIL 19, 1932

No. 13

Reference.—Price of Gasoline

WITNESS:

O. A. Beach, President, Beach Motors Ltd., Ottawa; C. Coplan, Owner, Superservice Gas & Oil Co'y., Ottawa.

Appendix,—Documents filed by Witnesses.

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1932

MINUTES OF PROCEEDINGS

TUESDAY, April 19, 1932.

The meeting came to order at 10.30 a.m., Mr. Matthews presiding.

Members present; Messrs, Arthurs, Bothwell, Donnelly, Fafard, Irvine, Matthews, McPhee, Pettit, Smoke, Spencer, Stanley.

Mr. O. A. Beach, President of Beach Motors Limited, Ottawa, was called, sworn and examined.

Witness retired.

Mr. S. Coplan, owner of Super Service Gas & Oil Company, of the City of Ottawa, was called, sworn and examined.

Witness retired.

The committee then adjourned till Thursday, April 21st, at 10.30 a.m.

A. A. FRASER,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
TUESDAY, April 19, 1932.

The Select Standing Committee on Banking and Commerce met at 10.30 o'clock, Mr. Matthews presiding.

The CHAIRMAN: The witness this morning is Mr. O. A. Beach, of Beach Motors Company.

O. A. BEACH, called and sworn.

By the Chairman:

Q. What is your position in the company?—A. I am president.

Q. President of Beach Motors, Limited? How long have you been in business?—A. In Ottawa, twenty years.

Q. Always in the motor business?—A. Yes.

Q. You are distributors of gasoline here, or buyers for retail?—A. Tank car buyers.

Mr. BOTHWELL: Distributors, as well.

By Mr. Donnelly:

Q. You do not distribute?—A. No.

By the Chairman:

Q. How long have you been buying gasoline in tank car lots?—A. Since 1922, close to ten years.

Q. You buy from Canadian companies?—A. At the present time, yes.

Q. You have bought from American companies?—A. Yes.

Q. Are there any questions any members of the committee wish to ask Mr. Beach?

By Mr. Bothwell:

Q. At the present time, you say you are buying from Canadian companies?—A. Yes.

Q. You handle quite a quantity of gasoline in a year?—A. Between 800,000 and 1,000,000 gallons.

Q. Since when have you been buying exclusively from Canadian companies?—A. Oh, about a year—I would say a year, or a little over a year.

Q. Prior to that you bought wherever you could?—A. Wherever we could get the best value.

Q. Do you handle different grades of gasoline, or have you been handling practically the same grade always?—A. We have been handling up until this last month, we have been handling one grade only.

Q. So that whether you bought from Canadian companies or American companies the grade of gasoline you were handling was always practically the same grade?—A. Yes, I would say so.

By the Chairman:

Q. By test?—A. By test.

By Mr. Stanley:

Q. What test?—A. Distillation test, gravity test, and octane test.

Q. Who tests it?—A. The fuel branch has done most of our testing except the—

Q. The gravity test?—A. We do ourselves.

Q. Your own fuel branch?—A. The Dominion.

Q. The government fuel branch?—A. The government fuel branch, yes.

By Mr. Bothwell:

Q. Was there any particular reason for your changing to buying and dealing exclusively with Canadian companies?—A. Well, I don't know that I can say that we have definitely changed; we have bought from Canadian companies more or less for the last ten years, but we have been able at times to bring in other gasoline at a price better, and what we consider better value than offered to us by the Canadian companies at times.

Q. Were Canadian companies able to compete in past years with American prices?—A. Yes.

Q. Have you any records to show that Canadian companies competed with American companies?—A. I have a contract made with the Imperial Oil Company in 1927, agreeing to meet either the Pennsylvania price, plus freight, or the mid-continent price, plus freight, on a 62 to 64 gravity gasoline.

Q. Have you that contract here?—A. I have.

Q. This is a contract dated 1st of May, 1927, between the Imperial Oil Limited, Toronto, and Beach Motors Limited, Ottawa.

The CHAIRMAN: Where?

Mr. DONNELLY: Ottawa.

By Mr. Bothwell:

Q. An agreement to deliver 32 cars?—A. A minimum of 32 cars.

Q. A minimum of 32 cars, nor more than a maximum of 63 cars, to be delivered in monthly quantities at the prices and in accordance with the conditions herein contained—62 to 64 gasoline.

Q. Is that about the same as this Three Star Imperial gasoline?—A. I think so, except it had no ethyl in it, which I believe Three Star gasoline has. It would be a little higher gravity gasoline than the Three Star.

Q. Would there be any difference in price, particularly in this gasoline and the Three Star—A. Well, it is pretty hard to say.

Q. Were they handling Three Star at that time?—A. They were not handling Three Star at that time; and at that time ocane or treated gasoline was not required. It was a better grade than their Premier grade. Premier grade at that time was 58 to 60, which was a low price gasoline. The other was a premium price gasoline.

Q. This would be fairly comparable to their Three Star gasoline of to-day? —A. I would think so; I would think in some respects better, and perhaps not quite so high.

Q. Clause two of this agreement reads as follows:—

> The price shall be the equivalent of the laid-down cost at destination on 64/66 gasoline, 375 E.P., figuring as the base the lowest price as quoted in Platts Oilgram, under western Pennsylvania Refinery, Oklahoma Refinery, or North Texas Refinery market.
>
> In the event of the lowest quotation in Platts Oilgram being in eighths fractions, the quarter of a cent below to be taken. Freight to be considered from Bradford, Pa., Tulsa, Okla., Wichita Falls, N.T., as the case may be.

Such deliveries to be made in tank car lots to the plant—that is your plant, at Ottawa.

By Mr. Donnelly:

Q. That means you were to get a quarter of a cent below the price?—A. No, not on this contract.

By Mr. Bothwell:

Q. Maybe one eighth of a cent below?—A. The contract we had the year previous to this, which I thought was contained in this when I got it, it was three quarters of a cent less than those prices on the contract I had the year previous.

Q. This provides, the price shall be equivalent of the laid-down cost at destination on 64/66 gasoline, 375 E.P.—A. Yes.

Q. Would that be a better grade of gasoline than you were getting, 62/64?—A. Two points gravity higher, but the endpoint was no higher.

Q. Would that indicate a slightly better grade or not? I am not experienced with this?—A. I would say it would indicate a better grade, 64/66. Endpoint is what we generally figure on.

By Mr. Donnelly:

Q. As a matter of fact now, in our handbooks the higher the specific gravity, the higher the price in the United States.—A. Well—

Q. As a rule.—A. The American price is never quoted—Platts never quoted 62/64.

By Mr. Bothwell:

Q. I see you refer to National Petroleum News. Is that the publication that is taken as an authority by all dealers?—A. Yes. It is the same publication that puts out this Platts Oilgram.

Q. You have imported gasoline from the United States; you have had gasoline delivered to you from the United States?—A. Yes.

Q. Do you remember the freight rate on gasoline from the mid continent field or from Bradford?—A. Seventy-four cents from the mid continent field, and 38 cents from Bradford.

Q. Per 100 pounds?—A. Per 100 pounds.

By the Chairman:

Q. How much from Bradford?—A. Thirty-eight cents, equal to three cents a gallon.

By Mr. Donnelly:

Q. As a matter of fact, referring to the quality of gasoline, I have here the Petroleum News Price Handbook for 1931. I see 60/62 gasoline at Chicago, averaged for the month of January, 1931, 4·56 cents a gallon, and 64/66, endpoint 375 was quoted at 5·09; so the higher the gravity, apparently the higher the price. When you refer to 64/66 apparently it is a better gasoline than 62/64, because it commands a higher price in those handbooks, anyway.

By Mr. Bothwell:

Q. The other day we had evidence from Mr. Halverson, possibly this was so far as western Canada is concerned, that they are selling gasoline in Saskatchewan at a price cheaper than it could be imported from the United States, free of duty, and dump duty. Would that statement apply to you here in Ottawa?—A. No, it would not. Our laid-down price here in Ottawa would be about 2.50 or 2.40 to-day less if it was not for the duty, less than what we are paying for it, if it was not for the duty and the dumping.

By Mr. Donnelly:

Q. If it was not for the duty and the dumping?—A. Yes.

By Mr. Bothwell:

Q. What are you paying for tank car lots here now?—A. Fifteen cents per gallon.

By Mr. Pettit:

Q. Just interjecting there, what is the reason for the answer to the previous question, do you know?

By Mr. Bothwell:

Q. That you are able to get it laid down cheaper here?—A. Ask me again, please.

By Mr. Pettit:

Q. Your answer to the previous question of Mr. Donnelly.—A. What is the reason that we can bring it in cheaper than it was being—

Mr. PETTIT (to reporter): Just read that question and answer, please.

REPORTER (reading):

> Q. The other day we had evidence from Mr. Halverson, possibly this was so far as western Canada is concerned, that they are selling gasoline in Saskatchewan at a price cheaper than it could be imported from the United States, free of duty, and dump duty. Would that statement apply to you here in Ottawa?—A. No, it would not. Our laid-down price here in Ottawa would be about 2.50 or 2.40 to-day less if it was not for the duty, less than what we are paying for it, if it was not for the duty and the dumping.

WITNESS: The only reason I can answer on that is because of the duty and the dump.

By Mr. Arthurs:

Q. I do not think you understood the question. The statement was made before the Committee by a representative of the Imperial Oil Company that his company was selling gasoline in Saskatchewan at a price lower than it could be imported in similar quantities from the United States, providing there was no duty, and no dumping clauses. The question asked by Mr. Pettit I believe is, can you give a reason why that condition does not obtain in Ottawa?

Mr. BOTHWELL: No, that is not the question at all.

Mr. ARTHURS: That is Mr. Pettit's question.

Mr. BOTHWELL: I do not think that is Mr. Pettit's question at all. The witness answered my question in which there was a preface. I prefaced my question with the remark that that only applied to Saskatchewan. I asked if that condition prevails in Ottawa, and the witness said no. He went on to explain that he could buy gas $2\frac{1}{2}$ to 2.40 cents cheaper if it were not for the duty and the dumping duty, and then Mr. Pettit's question was where can you buy it at that.

Mr. PETTIT: That was my direct question. The answer was, in my opinion, simply because of the duty.

WITNESS: Duty, yes.

By Mr. Arthurs:

Q. That would apply in every case, would it not? Change the question to mine. Why, in your opinion, could both these things be possible, that the Imperial Oil would sell at a price lower than the import price in Saskatchewan and in Alberta also, and it could not be done here. They said it could not be done here.—A. I don't know. That is the question. I have not got any way of knowing. I suppose it is a competitive point, maybe.

By Mr. Bothwell:

Q. I think it is only fair to draw your attention to the plate that was filed by the witness, Halverson. If you study that plate you will find where he got this price in Saskatchewan. He took the existing price prior to the change made by the budget in the sale of gasoline in Saskatchewan, but in importing gasoline from the United States, he adds the 6 per cent sales tax, and the 3 per cent excise tax, and so on, which would only come into effect a day or two before he gave evidence.

Mr. STANLEY: He took the former listed price.

Mr. BOTHWELL: The former listed price which had been in existence, and which was in existence before the budget; so for a few days in Saskatchewan his statement might be correct.

By Mr. Bothwell:

Q. Did you say that in your opinion you could lay gasoline down here from the United States 2·4 or 2·5 cents cheaper than you are now paying for it, if you did not have to pay duty and dumping?—A. I would like to amend that and say 2·7. I said 2·4 from memory. It is 2·7 cents less.

By Mr. Stanley:

Q. How do you figure that up?—A. Well, my quotation here.

Q. Start right in where you buy it?—A. Yes. My quotation to-day laid down in Ottawa, with all duty, taxes and exchange and freight paid, is 17·43.

Q. You said 5.—A. I am talking about import gasoline, 17·43, and our cost of duty, dump and exchange would amount to 5·12, which would bring it to 12·31.

By Mr. Pettit:

Q. What proportion of that is exchange?

By Mr. Donnelly:

Q. Exchange on the duty?—A. Exchange on the duty and on the gasoline. It is Canadian funds that I am talking about.

By Mr. Smoke:

Q. There is no exchange on duty.

Mr. DONNELLY: Yes. If you buy gasoline for five cents down there, and you have to pay 7·72 at Bradford, you have to pay exchange on the 2·72.

By Mr. Pettit:

Q. What proportion of the 5·12 is interest?—A. ·41 cents.

By Mr. Stanley:

Q. Where is it brought from?—A. That would be from the Bradford district.

Q. What is the listed price there at which you can buy it; what is the price on your invoice?—A. I have no invoice. The price of the—$5\frac{7}{8}$.

Q. Listed at— —A. At the point of shipment, in wine gallons.

Q. In wine gallons?—A. In wine gallons.

Q. That quotation is by telegram?—A. Yes.

Q. Where is the telegram from?—A. The telegram is from Oil City.
Q. From whom?—A. James B. Bery.
Q. Is he an official of some oil company?—A. No, a broker.

By Mr. Donnelly:

Q. You buy what you have bought from him?—A. Yes.

By the Chairman:

Q. From where?—A. From Oil City.

By Mr. Donnelly:

Q. That is Pennsylvania?—A. That is Pennsylvania, yes.

By Mr. Stanley:

Q. Can you follow that car along then, in its journey, give us the freight and so forth?—A. No; I have not the break-down. They have quoted me the price there, and they have quoted me the delivered price in Canada in Canadian funds, imperial gallons.

Mr. BOTHWELL: It might be well to have that telegram filed.

By Mr. Donnelly:

Q. Is there anything private in the telegram?—A. Not a thing.
Q. Well, we shall have the telegram filed, if you do not mind. What did you say the price was?—A. It is 5·12.
Q. It was 5·12?—A. Yes. These figures are very rough. I figured that up roughly.
Q. That is something like 2½ cents duty?—A. Yes.
Q. It is 2½ cents dumping duty?—A. It is 2·21, I figured.
Q. It is 2·6 to be exact. To be exact I think it is 2·6, according to our last schedule. Our last schedule list in Philadelphia, Pennsylvania, and exchange 7·72.—A. It is 7·72 against 8·76½ makes a difference of 1·04½, add $\frac{1}{6}$ which would make it 2·21.
Q. Well, that is all right. You would have to add that and 2½.—A. Yes.
Q. You have to pay this?—A. Yes.

By Mr. Stanley:

Q. What gasoline is that?—A. That gasoline is—
Q. How is it termed?—A. It is United States navy, say 64/66.
Q. What is the brand?—A. No brand; that is all the description of it, 390 endpoint.

By Mr. Donnelly:

Q. As a matter of fact, I may say it is a better brand of gasoline than what Mr. Halverston was giving evidence on, in regard to Saskatchewan. I asked him during the evidence, and he said he was speaking about 60 gravity gasoline. Apparently this is a better grade of gasoline than what he was speaking about at the time.

By Mr. Bothwell:

Q. Is it a better grade of gasoline than what is set out in the contract?—A. Than is set out in this contract?
Q. Yes?—A. Yes, I would say so.
Q. Because I see it is only 375 endpoint?—A. Well, endpoint of this, is lower than this.

By Mr. Pettit:

Q. You don't know what company those brokers represent?—A. No, a producing company; at least a great many different companies, I should think.

By Mr. Bothwell:

Q. The prices they quote you are the posted prices, according to the National Petroleum News?—A. Yes, practically. In fact, a little higher, I think in this case.

By Mr. Donnelly:

Q. We had evidence here showing that the price in tank car lots does not effect the price that the consumer has to pay here in Canada. If you were able to buy in tank car lots would you be selling chaper?—A. Yes, we would, and could sell 2½ cents cheaper.

Q. If you could buy in tank car lots, you say you would be selling 2½ cents cheaper?—A. Yes.

Q. We had evidence here showing that the tank car prices did not affect the service station prices at all?—A. It does not, unless they are tank car buyers; it does when they are tank car buyers.

Q. What proportion would you say of the dealers in the city of Ottawa are buying in tank car lots?—A. In tank units, or in quantities?

Q. In quantities?—A. I don't know. I cannot do any more than give a guess; I don't know.

By Mr. Stanley:

Q. Are you giving a quotation of negotiations or are you giving an actual transaction quotation. Is this just an offer to do something, or an actual transaction, which has been executed?—A. I have not purchased any outside gasoline for some time.

Q. This is an offer from this man?—A. Yes, a quotation.

By Mr. Donnelly:

Q. The reason why you cannot bring gasoline in from the United States is on account of the duty and dump?—A. Yes.

By the Chairman:

Q. Something was said about the freight?—A. Yes.

Mr. Donnelly: Yes, I was trying to find it, but I could not run across it. I think the McColl-Frontenac mentioned it. I think the whole question was gone into by one of the men from the McColl-Frontenac.

By Mr. Pettit:

Q. The gasoline you buy from the United States comes in by way of Buffalo, Hamilton and Toronto?—A. Well, not necessarily, no. It could.

Q. Which way does it come?—A. It might come in by the New York Central at Cornwall, or it might come by the other direction. We have got it both ways.

Q. I understood a witness of one of the former companies in answer to my question said that it came in by way of Hamilton, Toronto, down to Ottawa?—A. We have had it come both ways. We have not had any come within the past few years in that direction.

Q. How would it come in now?—A. I don't know.

By Mr. Bothwell:

Q. There is another phase of the situation that has occurred to me. When you buy in tank car lots, how is your quantity of gasoline figured? You have to have some measurement as to temperature, and so on?—A. Well, that is figured. Each tank car, of course, has its certain capacity to the bottom of the dome, its measured capacity. After the temperatue is taken into account, it is above or below, and they add or deduct to arrive at the quantity, taking it at a temperature of 60 degrees Fahrenheit.

Q. Suppose you get a carload of gas in the winter time?—A. Yes.

Q. And was loaded at a temperature, say of 32 degrees—I do not know how many gallons a tank car holds—but suppose you had a thousand gallons in a car, which was measured for a thousand gallons?—A. Yes.

Q. And that was at a temperature of 32, how much gasoline would you have to pay for?—A. We would have to pay for the difference to bring it up, in expansion, to a temperature of 60 degrees, which amounts to quite a bit in a car load, at times.

Q. How do you get your money back for the difference?—A. We lose that. We lose that if we sell it at a temperature higher than what we purchase it at. If we sell at a temperature above what we purchased it, we lose that difference, or if we sell at a temperature of 60, we should come out even. Of course, we never can get it at 60 so it is a loss. It is not so great in the summer, but even in the summer it is loss.

By Mr. Bothwell:

Q. In your invoices does that amount to a considerable amount in the year of additional gasoline you pay for?—A. Yes, quite a considerable amount, perhaps a quarter of 1 per cent.

Q. Have you any invoices showing that?—A. No, I have not.

By Mr. Donnelly:

Q. Where does your gasoline come from that you buy—from the Imperial Oil at the present time?—A. We have not been buying any from them.

Q. Or from the British American?—A. From Montreal.

Q. Any from Toronto?—A. No.

Q. I see that the price they say, between Montreal and Ottawa, as they claim, is one cent difference in the price between the two cities, that Ottawa is one cent higher. As I see here, the price that is given to us by the Imperial Oil, for the present price in tank car lots in Montreal is 13·50; you claim that they are charging you here 15, now?—A. Yes.

Q. So that apparently there is a cent and a half difference in some way that is unaccounted for?—A. To two years ago the price was a cent more.

The CHAIRMAN: Is that in tank car lots?

Mr. DONNELLY: Yes, tank car lots.

The CHAIRMAN: The price quoted by a former witness was one cent difference between the tank and wagon price. I happen to have my eye on the evidence given by a former witness.

The WITNESS: The tank and wagon price on the lower quality gasoline is 17½ cents.

By Mr. Donnelly:

Q. And what is it on the ordinary quality?—A. 18½ cents.

The CHAIRMAN: Eighteen and one half cents is the price quoted by witness from the McColl-Frontenac.

By Mr. Donnelly:

Q. I see, referring again to the freight, on page 226 of the evidence, one witness giving evidence—I do not know which witness it was—says that the freight from Bradford, Pennsylvania to Ottawa is 2·90 cents a gallon, but according to your freight bill there it is 3 cents?—A. That is as near as I can figure it, 3 cents a gallon.

By the Chairman:

Q. In what quantity?—A. Tank cars.

By Mr. Stanley:

Q. What was your last actual tank car transaction with the firm you mentioned?—A. I think it would be about 1929.

Q. Or with any other firm importing it from the States?—A. Oh, it would be perhaps about 1930, about a year and a half ago, I would think.

The CHAIRMAN: Dr. Donnelly, the price you quoted was 3 cents, where was that from?

Mr. DONNELLY: No, this witness just gave evidence saying that the freight was 3 cents. I said the witness who had been here said that the freight was 2·9 from Bradford, Pennsylvania to Ottawa.

The CHAIRMAN: That is right.

By Mr. Stanley:

Q. What is the date of the telegram you have had?—A. Last night.

Q. And you have had considerable correspondence previous to this telegram?—A. No, not for some time.

Q. Have you had any other quotations recently from the same firm?—A. No, I have not. I wired them asking for quotations.

By Mr. Bothwell:

Q. When did your price go up to 15 cents a gallon here?—A. Last August or September.

Q. And what price had you been paying prior to that?—A. 12·60.

Q. Was there any reason given to you for the increase in price?—A. No.

Q. We have prices here quoted for Montreal, in October 15 cents, November 15 cents, December 15 cents, present price 13·50 cents. So, apparently, they have dropped away $1\frac{1}{2}$ cents in Montreal but have not given you people in Ottawa the cent and a half?—A. No.

Q. But there has been no decrease lately, since last September, in the prices in tank car lots here?—A. No.

By Mr. Bothwell:

Q. Have you purchased recently?—A. Oh, yes, every week.

By the Chairman:

Q. I suppose you know the evidence given by a former witness, that the cost of freight is less from the Pennsylvania producer than it is from Toronto? —A. I have seen it published that way in the paper, yes.

By Mr. Donnelly:

Q. But, according to your definite evidence now, it is not any less but it is just the same?—A. I do not know what the freight is from Toronto.

Q. His evidence is that it is 3 cents from Toronto, and your rate is 3 cents?—A. I think the rate is 38 cents, and 8 pounds to the gallon; that would bring it 2·9 or 2·95 or 3 cents, according to the number of gallons in a tank car; and the freight we have to pay comes to very nearly 3 cents.

Mr. BOTHWELL: That is all I want. You have no objection to filing that contract.

The WITNESS: Not a bit, if you want it.

Mr. BOTHWELL: Some of the other members would like to have it.

The WITNESS: All right.

S. COPLAN, called and sworn.

By the Chairman:

Q. Mr. Coplan, you were asked to come here and give evidence to-day under oath?—A. Yes.

Q. What is your business?—A. Super Service Gas and Oil Company.

Q. In Ottawa?—A. Yes, in Ottawa and Hull.

Q. Is that an individual business of your own?—A. It is practically my own, yes. There is no partner in it.

Q. How long have you been in this business?—A. Four and a half years.

Q. Before that were you connected with the oil or gasoline business?—A. Oh, I was a theatre owner,—I used to own the Princess theatre.

Q. You were in the theatre business?—A. I was.

By Mr. Bothwell:

Q. You purchase gasoline in tank car lots?—A. Yes.

Q. About how much do you use a month or a year?—A. I use approximately 100 cars a year, more or less.

By Mr. Stanley:

Q. What is the capacity of a car?—A. It is between 6,000 and 8,500 gallons. The larger cars are between 8,400 and 8,500 gallons.

By Mr. Bothwell:

Q. Are you buying from Canadian companies or from American companies?—A. I was buying, up until August last, from American companies and sometimes from the Imperial.

Q. And since August last?—A. Since August last, since the government protection, so to speak, you know, with the 2½ tariff and the 2 cents dump tax came into effect, I was forced to buy from local firms.

Q. Since last August you have been buying from whom?—A. From local firms, from the Imperial, the McColl-Frontenac and the British American.

Q. What price are you paying now for gasoline in tank car lots?—A. Fifteen cents.

Q. For what length of time have you been paying that price—when was the last change?—A. The last day of August last year.

Q. How much were you paying prior to that?—A. 12·60.

By Mr. Stanley:

Q. That is from these same companies?—A. Yes, prior to this I bought from the McColl-Frontenac several cars, I think 15 cars, at 12·60; and then they raised it 1 cent—no, they raised it ·90, so that it went up to 13·50; and another week they raised it to 15 cents.

By Mr. Bothwell:

Q. In connection with these cars of gasoline, you buy on a temperature basis of 60 degrees?—A. Approximately, yes.

Q. And when you get your shipment of gasoline, say, a car of 8,400 or 8,500 gallons, do you have to pay any additional amount?—A. Whether I have to pay or I have not got to pay, I do pay. They force me to pay.

Q. Can you give us any of your records on different cars, as to what additional you have paid?—A. Yes, sir. There are the last two cars I received from the British American, I am paying on one car, dated March 11, 240 gallons additional—

Q. That is just by reason of temperature?—A. Yes. On March 17, for one car, I am paying for 201 additional.

By Mr. Stanley:

Q. Explain why. Explain the reasons in more detail.—A. There is one car, 240 gallons, the temperature was 19. The car that is 201 gallons has the temperature of 26—this is the way it is made up. I have got my own way of measuring. We are measuring cars when we are unloading them, with a stick. You put in the stick and the stick shows you how many gallons there are. I have records to show that we never gain a gallon; of this additional, added gallonage for which we pay, we never gain a gallon; whatever we pay, we are losing it.

By Mr. Donnelly:

Q. You have to sell by the measured gallon?—A. Yes.

By Mr. Bothwell:

Q. This shows 8,394 gallons in that car, dome ½ inch 5 gallons, 8,399 gallons. Then temperature 26, and they add 201, bringing it to 8,600 gallons?—A. Yes.

By Mr. Stanley:

Q. An invoice from what company?—A. The British American, dated March 17th last.

Q. Are we to understand that while they add that 201 gallons, the gallons are really not there once you come to measure out the car?—A. Not at all.

Q. How do you know they are not there?—A. After we unload the car we measure it with the stick.

Q. The stick does not take account of the temperature?—A. No; but the actual gallonage which we get, and by which we are selling it.

Q. You may be selling it at a temperature of 19 for all you know, and you certainly are losing if you are doing that?—A. We have to.

Q. But, if I understand, you have to purchase this at what standard temperature?—A. This is their regulations, that they add so many gallons, according to the temperature.

Q. What temperature?—A. It all depends—I suppose it is about 60.

Q. Don't you know?—A. No, not exactly, I am not a chemist.

Mr. Bothwell: He just has his invoice from the company.

By Mr. Stanley:

Q. I know, but when he buys that he knows he is buying it to be measured at 60 degrees temperature?—A. We are not supposed to know that, and I can tell you more than that, the Quebec and Ontario governments, for which we are collecting the tax on the gasoline which goes through our pumps, it is an established fact that the governments are demanding from us for these gallonages as well. The way they are making up their statement at the end of the month, we receive the following cars from the different companies, and the total of it; and then what we sell, and what we have got to have as a balance. Now, if we are short, the government is demanding this tax from us.

I had an occasion not long ago when the Quebec government demanded $100. I said, For what reason? They said, Because you received so much. I said, Did I sell so much? I did not sell those gallons because they were not there. It would be a different case if I would buy it at this temperature and sell it at the summer temperature after it gets warmed up; but I have to sell at the then temperature.

By Mr. Bothwell:

Q. Have you any record of your actual loss on the different cars put through?—A. At the moment, I have.

By Mr. Stanley:

Q. I think you ought to file that?—A. I can. This is a little book in which I take a record of every car which comes in; it is numbered, measured and shown, and the way it is distributed. And at the end of the month it shows here the total gallonage I have used from the big tank.

By Mr. Bothwell:

Q. Give us the months for this year?—A. I have a book like this for every six months, and this one begins in January. For January month, the big tank lost 519 gallons.

Q. That is you paid for 519 gallons more than you got in selling it?—A. Absolutely.

By the Chairman:

Q. Have you paid taxes to the Ontario government for that?—A. I cannot pay tax because I did not sell it.

By Mr. Stanley:

Q. I thought you said a moment ago that the government did ask you to pay on what you received?—A. They did ask every time, and I have disputes with them; I am not paying it.

By the Chairman:

Q. Do they ask you to pay on gallonage which you did not receive?—A. Which I did not sell. When I am submitting my statement, I state how many gallons we sell every day, and they take that as correct; yet they claim this, and I say, did I get it?

By Mr. Stanley:

Q. They are collecting on the gallonage which you have received, which it would come to if it were heated up,—that is what they collect on?—A. In January, my storage tank loss, 519 gallons; in February, 260 gallons; in March, 475 gallons.

By Mr. Bothwell:

Q. What is the capacity of that tank?—A. Fifteen thousand gallons.

By Mr. Stanley:

Q. You imported gasoline in time gone by?—A. Oh, yes.

Q. Did you purchase it on exactly the same basis of temperature?—A. I never remember of adding 200 gallons to a car, or 100 gallons to a car.

Q. Did you purchase it on the same basis in regard to temperature?—A. Yes, sir.

By Mr. Donnelly:

Q. But you did not have any such losses as you have had lately?—A. The biggest loss on a car which we ever had from the United States was 65 or 66 gallons.

Q. That might depend upon the time of year when you purchased and when you sold it?—A. I am purchasing every month.

By Mr. Bothwell:

Q. If you get a car of gasoline in from Montreal in the heat of summer, did you ever have a car which ran over 60 degrees temperature?—A. I do not remember of any.

Q. What becomes of this gasoline when you get it?—A. It is put into an underground tank.

Q. So that it will have a tendency to shrink,—you pay for it at the surface temperature and sell it at the underground temperature?—A. If I can explain to you a certain instance, it would enlighten you, to this effect, that our total shortage for the year in operation alone is approximately from 1¼ per cent to 1½ per cent.

Q. Do you mean from evaporation?—A. By evaporation from the small tanks in our stations and from the bulk.

Q. And what is your shrinkage, from these figures which you have given us, in a year, from temperature?—A. I will tell you what was distributed in January, February and March, so that you can figure it out. In January, I distributed 29,050 gallons, and lost 519 gallons on account of this added gallonage, on account of temperature; in February I sold 20,125 gallons, and lost 260 gallons on account of this; in March I sold 20,710 gallons, and lost 475 gallons. That is, on 69,885 gallons sold, I lost 1,254 gallons. That will bring it to nearly 2 per cent—1⅞ per cent or something near that.

By Mr. Stanley:

Q. I do not understand what is the reason for the loss?—A. Because we have to pay for so many gallons and do not get it. We pay for the quality.

Q. Mr. Beach has just through saying it is ¼ to 1 per cent loss?—A. This is on the big tank alone the loss; and then we have evaporation alone for which the government allows us 1 per cent.

By Mr. Donnelly:

Q. Do your companies ever allow anything for evaporation?—A. No, sir, never.

Q. To whom do you sell?—A. In the service stations.

Q. So that there is a good deal of handling of the gas from the time you get it in the car until it is sold to your consumers?—A. That is so.

Q. If I were you, I would check up pretty carefully somewhere?—A. There is not a better checking up than I have in my business.

Q. If Mr. Beach is losing a ¼ to 1 per cent, and you are losing 2 per cent?—A. Would you permit me to say that there is a Mr. Cummings who worked himself night and day and in two years he lost $2,000. He runs his station twenty-four hours a day.

By Mr. Stanley:

Q. Was he cutting the price on other sellers?—A. No, he lost in evaporation that much.

The CHAIRMAN: We do not want hearsay.

The WITNESS: That is for the sake of argument.

By Mr. Bothwell:

Q. You say you buy from Canadian companies?—A. Yes.

Q. Why do you change from one to the other—is there any difference in the price?—A. No, not at all. They all sell at the same price. You cannot buy 100,000 gallons for ⅛ of a cent less from any of them.

Q. Have you imported gasoline from the United States in past years?—A. I used to. There are several cars here from Sinclair.

Q. I do not care particularly for details. Have you any quotations for cars from the United States recently?—A. I was trying to get in touch yesterday to get a telegram with a quotation from the Sinclair Oil; so, finally, as it was getting late in the afternoon, I decided to call them up on the long distance, and I did so; and I asked them to quote me a price from Wellsville, New York; but the reply was that the general manager was out of the city, and he would not like to quote a price f.o.b. there, but he can quote me a price f.o.b. here. I said that would not be any use; because it would cost exactly 15 cents, because they have a branch office in Toronto, and they are following the same line.

By Mr. Donnelly:

Q. They sell it here at 15 cents?—A. Well it is at the same price, but in Canada it would not compete with them; it would compete with them at the same price as theirs.

By the Chairman:

Q. I suppose you know there is a gasoline racket on in the States just now?—A. I don't take any interest.

By Mr. Donnelly:

Q. Have you been able to buy, or have you any knowledge of any cheap distress gasoline in the United States at all?—A. No.

Q. Have you been able to buy it at any price?—A. When I was bringing it in from the States, I always handled 64/66 gravity.

Q. When you bought it, it was practically at the posted price? What we call the Oilgram or posted price?—A. Yes; sometimes ⅛ of a cent less, if you buy a quantity.

By Mr. Pettit:

Q. When did you last purchase gasoline from the United States?—A. The last purchase of gasoline was on the 29th September.

Q. What year?—A. 1931, last year.

Q. In what quantity?

Mr. DONNELLY: Just give us that one invoice.

By Mr. Pettit:

Q. In what quantity?

By Mr. Donnelly:

Q. How much was in the car?—A. There were 6,712 gallons.

Q. Imperial gallons, or wine gallons?—A. That is Imperial gallons.

By Mr. Pettit:

Q. From where?—A. Wellsville, Sinclair Refining Company, Wellsville.

By Mr. Donnelly:

Q. What was the freight?—A. I used to buy f.o.b. here.

By Mr. Pettit:

Q. What grade of gasoline?—A. 64/66 gravity, 63/65 gravity.

Q. When before did you purchase?—A. Well, there are about 10 or 15 invoices right along.

Q. What date?—A. The last one is dated 29th September, 1931, last year.

Q. Give me the one before that.—A. Two cars and one day three cars, and one day three cars.

By Mr. Stanley:

Q. Is the gallonage loss marked on your invoice?—A. This is temperature 61.

Mr. BOTHWELL: They deduct five gallons there.

WITNESS: Sixty-five temperature they deduct 23 gallons.

By Mr. Pettit:

Q. On the 29th of September last, what is the total quantity you bought from Wellsville?—A. Each car approximately 6,712 gallons, 6,689 gallons, 6,766 gallons, and two cars from the McColl-Frontenac; and, then, on the 12th September——

Q. What was the quantity from the McColl-Frontenac?—A. McColl-Frontenac, one car 8,389, and the other car, 8,389.

Q. What grade?—A. It does not mention the grade, but approximately I suppose about 58/60; their gasoline is 58/60.

By Mr. Donnelly:

Q. A low grade?—A. Yes.

By Mr. Pettit:

Q. The same price?—A. The same price.

Q. You bought a shipment in the United States from Wellsville, and on the same day a shipment from the McColl-Frontenac, and at the same price.—A. It was the same price.

Q. When was the next purchase previous to that from the United States?

By Mr. Bothwell:

Q. Before you pass that, may I interject a question?—A. Before this one was the 10th of September—two cars on the 10th of September from Wellsville.

Q. What was the quantity?—A. They were 6,690 in one car, and 6,689 in the second car.

Q. What was the grade?—A. It was 63/65.

Q. What was the price per gallon?—A. The same price as the McColl-Frontenac, 13.50.

Q. I did not get that.—A. It was 13.50.

Q. Is there any other from any Canadian company on that date?—A. No.

By Mr. Pettit:

Q. Give me the one previous to that, from the United States.—A. On the 19th August.

Q. What was the quantity?—A. One car on the 19th August, and the other one on the 15th August, and the cost is 12.60.

Q. What was the grade?—A. The grade is the same; it does not mention it in this.

The CHAIRMAN: There is no grade indicated in the invoice. The price is 12.60.

By Mr. Pettit:

Q. What is the price?—A. The price is 12.60. Five cars, 12.60. Here is one from the McColl-Frontenac at the same price, 12.60.

Q. The same price?—A. The same price.

Q. Give me the one previous to that from the United States.—A. The next one is the Imperial Oil.

Q. At 12.60.—A. It is 12.60, dated 27th July.

Q. At the same price.—A. 12.60.

Q. Give me the one previous to that from the United States.—A. July 3rd, from Sinclair, 12.60.

Q. What is the grade?

The CHAIRMAN: There is no grade indicated.

By Mr. Pettit:

Q. Pardon me. I want to get the purchases a number of months prior to that, earlier in 1931.—A. The 9th of May?

Q. Back farther than that, even.—A. The 11th of March?

Q. In the year 1931.—A. The price was 13.41.

Q. From whom?—A. Sinclair, Wellsville, N.Y.

Q. Where is that?—A. Sinclair, Wellsville, N.Y.

The CHAIRMAN: The Sinclair Refining Company, of Canada.

The WITNESS: Yes. There is an office in Canada. It is invoiced from Toronto, all invoices are from Toronto, and it is shipped from Wellsville, N.Y.

By the Chairman:

Q. What is the price?—A. It comes up to Erie and then shipped by C.N.R.

By Mr. Pettit:

Q. Was that 13·41?—A. That was 13·41.

Q. The same grade?—A. The same grade.

The CHAIRMAN: No grade indicated.

By Mr. Stanley:

Q. What is the gallonage loss?—A. I have not got that—just a second—57 gallons.

Q. Did you get credit for those gallons?—A. Not at all.

Q. Farther on?—A. Not at all.

Mr. BOTHWELL: From the Sinclair Company he does, but not from the McColl-Frontenac.

By Mr. Bothwell:

Q. Mr. Coplan, I want to ask you a few questions on those invoices back here in July and August. Now, this is in September 29.—A. Yes.

Q. From the Sinclair?—A. Yes.

Q. They give you credit for five gallons there because the temperature is 61.—A. Yes.

By Mr. Donnelly:

Q. They give him credit for that?—A. Yes.

By Mr. Bothwell:

Q. On another car on the 29th September, they give you credit of 23 gallons because the temperature is 65 degrees.—A. Yes.

Q. The Sinclair Oil have also given you credit of 24 gallons on the other car?—A. Yes.

Q. On September 15 the McColl Frontenac gave you no credit.—A. No.

Mr. STANLEY: What is the temperature?

Mr. BOTHWELL: There is no temperature mentioned in that one.

Mr. SMOKE: It may be below.

By Mr. Bothwell:

Q. I am taking the same time of the year, practically. On September 14 McColl-Frontenace give you no credit for loss in temperature?—A. No.

Q. The Sinclair Refining Company gave you credit of 81 gallons on the 12th September?—A. Yes.

Mr. PETTIT: And that is one you just referred to?—A. Yes.

By Mr. Bothwell:

Q. On the 12th September they gave you a credit of 31 gallons on another car, and on the same day they gave you credit of 82 gallons on another car, and then we come to McColl-Frontenac. On September 14 there is no credit at all.—A. No credit at all.

By Mr. Irvine:

Q. You lost about 200 gallons?

By Mr. Bothwell:

Q. When you come to the British American, in March, for instance, they set the temperature and charge you 240?—A. Yes, and 201 in one of them.

By Mr. Stanley:

Q. Do you make those purchases through a local representative of the Canadian companies, here, or do you buy it from headquarters?—A. From the Sinclair, you mean?

Q. Who measures it for you; who checks it up for you here?—A. Myself.

Q. Who checks the temperature for the company?—A. In the refinery.

Q. The refinery here?—A. Not here; wherever the car is shipped from.

Q. That is where it is checked?—A. Wherever the car is shipped from.

Q. What is the difference between where it is shipped from and Ottawa? Does that enter into the plan at all?—A. No.

Q. Is that the understanding?—A. Yes.

Q. Your purchases there from the McColl-Frontenace back in March, the gallonage was determined at Montreal?—A. Yes.

Q. And delivered to you at Ottawa?—A. At Ottawa.

Q. And the amount in the tank car, when you got it at Ottawa, was determined in Montreal?—A. In Montreal.

Q. Is that correct?—A Yes.

By Mr. Bothwell:

Q. Did it ever strike you as peculiar that they give you the temperature and add the gallonage in the winter time?—A. I was always kicking.

Q. They don't mention it in the summer months?—A. I was always kicking against this.

By Mr. Stanley:

Q. Did you ever ask for temperature?—A. I always maintained that they are just entitled to the gallonage that they actually put in the car.

Q. I always understood you were a shrewd businessman. It strikes me that if you pay the gallonage in the winter, you ought to deduct the gallonage in the summer.—A. Take it from whom?

Q. From the man you are buying it from.

By Mr. Irvine:

Q. It seems to me, if I understand you right, you get an allowance of gallonage from the United States firms, whereas when you buy from Canadian firms if it results in a shortage, and it does, sometimes, as high as 400 or 500 gallons, depending on the time of the year—

Mr. BOTHWELL: Two hundred gallons.

The WITNESS: It is 240 gallons.

Mr. BOTHWELL: That was for a month.

The WITNESS: Five hundred for the month.

By Mr. Irvine:

Q. I think you should not buy from Canadian companies. You should buy all your gasoline from the American companies.

By Mr. Donnelly:

Q. Why are you not buying from American companies now?—A. For the same reason; if I should buy from the United States now, they would charge me the same price as I have to pay here, and I might as well give the business locally.

By Mr. Irvine:

Q. Are you not thereby losing all this gallonage?—A. What can you do?

Q. You could buy it from the United States.—A. Not in that sense.

Q. It is at the same price.—A. I will explain it to you shortly, and you will understand it better. When I purchased those two cars from the American Company, I made this deal with the local manager, and it was distinctly understood that we were not to pay for those wind gallons, which I call it.

By Mr. Stanley:

Q. Why did you pay for that?—A. Am I going to stand a court trial? They issue a writ against me. In fact, I have not paid for those two cars yet. I have to pay it, and I have to pay it in full. For the sake of $200 or $240, I would not go and stand defence in court. I would rather pay that and be done with it, rather than go in court, if I can help it.

By Mr. Donnelly:

Q. Just one question. You are interested in the price of gasoline in tank car lots, are you not?—A. Yes.

Q. If the price of gasoline in tank car lots were to drop two cents, what result would that have on the service station price?—A. What effect would it have?

Q. What effect would it have on the price at your service stations?—A. My customers, who are dealing with me, would get two cents off the price, or $1\frac{1}{2}$ cents less.

Q. Every drop of a cent or more in the price of tank car sales you pass on to the consumer?—A. Absolutely.

Q. And the price which regulates the price to the consumer is the price you pay for tank car lots?—A. Absolutely.

Q. You say it is not in tank wagons?—A. No.

By Mr. Pettit:

Q. The gallonage that you pay is based on the temperature at the point of shipment?—A. At the place of shipment.

By the Chairman:

Q. Is there a unit basis for that at each of the refineries?—A. There is. It is done right here. In the summer time, going back you know, to this file, the Sinclair deducts, you know, for higher temperature, and at the same time I bought from the McColl refinery, and they did not give me a single gallon.

Q. At the same temperature?—A. The same time of the year.

Q. At the same temperature?—A. Approximately the same.

By Mr. Bothwell:

Q. I do not suppose anybody can state that.—A. But it is the same month, in the same month of the year. I get from the Sinclair about 67 gallons—70 gallons, and the McColl-Frontenac does not give me one gallon; but when the temperature is lower, they are here to charge me.

By Mr. Pettit:

Q. The gallonage that you pay for is based on the temperature at the point of shipment?—A. I suppose so.

By Mr. Stanley:

Q. Is that the same on the gasoline that you import; is the gallonage determined on the temperature there?—A. Yes.

Q. I thought you said it was f.o.b. here.—A. I am buying f.o.b. here. Really, they are not supposed to charge.

Q. It is f.o.b.? The gallonage is determined before it leaves the States?—A. Yes.

Q. And you have to take what you get here?

By Mr. Bothwell:

Q. These are billed from Toronto?—A. They are billing it from Toronto.

By Mr. Irvine:

Q. It seems to me, if I can understand your story, that if you are buying gasoline in the United States, you would thereby contribute money to the public treasury of Canada, and you would save yourself around 200 gallons on the cost of your tank car lots?—A. Yes.

Q. Well, it seems to me, sir, that the thing to do would be to buy in the United States every time, and save 200 gallons for yourself, and help the public treasury. I advise you, sir, to do that.

By Mr. Donnelly:

Q. Aside from the service stations here in Ottawa belonging to the British American, the Imperial Oil and the McColl-Frontenac, are there many private distributors buying in tank car lots?—A. I think there are six of them.

Q. Would they be handling a large quantity proportionately of the gasoline, outside of those service stations, the Imperial Oil, the British American and the McColl-Frontenac? Not taking into account the Imperial Oil Limited, the British American and the McColl-Frontenac, would these be handling a large percentage of the gasoline handled here in Ottawa?—A. I would say that each one of those six—excluding Mr. Beach and myself, there are four others, six altogether.

Q. There would be six?—A. Six in Ottawa, three in Hull. I was speaking of the Ottawa dealers. There are Mr. Beach and myself, and four others. Well, those four you know, would sell approximately, I would say, 25 cars.

Q. Each one?—A. Each one.

Q. That is, 100 cars handled by them, and you are handling——A. One hundred cars, and Mr. Beach, I think, handles more.

Mr. DONNELLY: How many do you handle, Mr. Beach?

Mr. BEACH: Seventy-five carloads, I would think.

Mr. STANLEY: Mr. Chairman, it certainly would be interesting to have expert evidence in regard to this question of gasoline. Dealers buy gasoline, and they sell it in the middle of the summer and in the winter. They buy it in the summer and they sell it in the summer and we would be interested in having evidence to show the necessity of fixing temperatures from the standpoint of purchasing and selling of gasoline. I think it should be placed before us. The next thing in connection with that would be this. If it is asserted that that is the only equitable way to sell gasoline, it would appear to me that the equitable place to measure it would be where the sale is complete. I am perfectly green, of course, and I have a very open mind in connection with it. If Mr. Beach purchases gasoline f.o.b. Ottawa, I would think that the purchase should be completed on the temperature at the place where he completes his purchase.

Mr. BEACH: It does not make any difference where it is measured. It will show exactly the same reading no matter whether at 75 degrees or 69, the same amount of gasoline would be on the invoice.

Mr. STANLEY: What is the temperature based on, then?

Mr. BEACH: Gasoline is supposed to be measured at 60 degrees Fahrenheit. If you buy it at 19 degrees Fahrenheit, that gallon, measured gallon, is going to shrink a little bit; if it is bought at 60 degrees, it increases a little bit.

The CHAIRMAN: Is the same method of measuring adopted in the Canadian refineries as is used in the American refineries?

Mr. BEACH: To my knowledge, yes it is.

The CHAIRMAN: Well, gentlemen, are there any other questions? If not, we shall adjourn, to meet again on Thursday.

Committee adjourned until Thursday, April 21, 1932.

SESSION 1932

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

THURSDAY, APRIL 21, 1932

No. 14

Reference.—Price of Gasoline

WITNESSES:

Mr. O. B. Roger, Secretary-Treasurer, Shell Oil Company of Canada.

Mr. H. W. Wilson, Sales Manager, Shell Oil Company of Canada.

Appendix,—Statements filed by Witnesses.

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1932

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,

THURSDAY, April 21, 1932.

The committee meeting came to order at 10.30 a.m., Mr. Matthews in the Chair.

Members present: Messrs. Arthur, Baker, Bothwell, Chaplin, Donnelly, Ganong, Matthews, Pettit, Smoke, Stanley.

Officers of the Shell Oil Company of Canada were in attendance.

Mr. O. B. Roger, secretary-treasurer, was called, sworn and examined.
Witness retired.

Mr. H. W. Wilson, sales manager, was called, sworn and examined.
Witness retired.

The witnesses agreed to file certain statements in writing not presently available.

The committee then adjourned at the call of the Chair.

A. A. FRASER,
Clerk of the Committee.

45769—1½

MINUTES OF EVIDENCE

House of Commons,
Thursday, April 21, 1932.

The Select Standing Committee on Banking and Commerce met at 10.30 o'clock, Mr. Matthews presiding.

The Chairman: If you will come to order, gentlemen, we shall commence. We shall hear witnesses this morning from the Shell Oil Company of Canada. The committee requested the presence of the president of the company, but I have been informed that he is ill, and therefore, is unable to be present. He sent as a substitute, Mr. O. B. Roger and Mr. H. W. Wilson.

Mr. O. B. Roger called and sworn.

By the Chairman:

Mr. Roger, you are an officer of the Shell Oil Company?—A. Yes sir, secretary-treasurer of the company.

Q. How long have you been associated with the Shell Oil Company?—A. The Shell Oil of Canada, two years.

Q. Previously to that?—A. I was with one of the Shell Oil subsidiaries in the United States.

Q. How long has the Shell Oil Company of Canada been selling oil products in Canada?—A. Since shortly after the war, but previously to that, I think Shell Products were marketed in Canada through the medium of the British American Oil Company?

Q. Do you refine in Canada?—A. No, sir.

Q. You have no refineries?—A. No, sir.

Q. Do you refine in the United States?—A. Yes.

Q. Where are your refineries?—A. We have several refineries. There are some in the middle west, some at the gulf, some on the Pacific coast.

Q. You handle their products here?—A. Some of our importations, implemented from the United States, others find their way here from the Dutch West Indies.

Q. From your own associates there?—A. Yes, sir.

Q. Do you buy gasoline in Canada?—A. No, sir.

Q. You are importers?—A. Yes.

Q. Do you distribute through your own organization?—A. Yes.

Q. Solely?—A. Yes, sir.

Q. You do not sell to other dealers?—A. Surely. We have service stations; we have some jobber accounts, and of course, the usual tank wagon business.

Q. Do you sell in all parts of Canada?—A. No, sir, we confine ourselves to the provinces of Ontario and Quebec.

Q. You do not sell for delivery in the west?—A. No, sir.

The Chairman: Does the committee wish to question Mr. Roger?

By Mr. Bothwell:

Q. You say you have refineries, Mr. Roger, in the middle west?—A. Yes.

Q. Do you import any gasoline from the middle west into Canada?—A. Well as far as we are concerned, here in Canada, sir, it is immaterial to us which particular shipping point our American associates choose to ship to us. In other words, when I say middle west, we have a refinery at East Chicago; we have another one at Wood River, Illinois, and it is perfectly immaterial to us which point of origin they designate for our supplies here in Ontario.

Q. So, part of your gasoline does come from those refineries in the middle west?—A. Yes, sir.

Q. And part of it will come from your gulf refineries?—A. From the Dutch West Indies.

Q. I understood you to say also you have refineries at the Gulf?—A. We did have, but it so happens that for the time being we have been purchasing our supplies in the Dutch West Indies for our eastern business rather than getting it from the gulf ports.

Q. So that it would be fair to say for some years you have not imported any from the gulf ports?—A. Yes, sir.

Q. I presume none of your Pacific coast refined oil comes into Canada?—A. Not as far as we are concerned, no, sir.

Q. What do you mean by "as far as we are concerned?"—A. I might explain that, because there are products sold into British Columbia by the Shell Oil Company of British Columbia, who will get their supplies from California.

Q. Is the Shell Oil Company of British Columbia a subsidiary of the Shell Oil Company of Canada?—A. No, sir

Q. It is a subsidiary of the Shell Oil Company, the parent company?—A. Yes, sir.

Q. Where is the headquarters of the parent Shell Oil Company?—A. London.

Q. London, England?—A. Yes.

Q. So there is a subsidiary of your parent company selling in British Columbia? You have given us the information that the Shell Oil Company of Canada confines its operations to Ontario and Quebec. Have you any other subsidiary that sells in the other provinces?—A. No, sir.

Q. Of the parent company?—A. No, sir.

Q. No subsidiary of the Shell Oil of Canada?—A. No, sir.

Q. So far as your own importations, the Shell Oil of Canada, is concerned, you are confined to the middle west and Dutch West Indies?—A. Correct, sir.

By Mr. Pettit:

Q. What percentage of your importations are from the United States and the Dutch West Indies? What is the percentage of your importation from each?—A. For practical purposes—Mr. Wilson will probably answer that question better than I could answer it—for practical purposes I would say they are very nearly equal.

By the Chairman:

Q. Is the Shell Company of Canada owned or controlled in Canada, or is it controlled by the American company?—A. It is a 50-50 partnership, sir. The Shell Union Oil Corporation owns 50 per cent of our stock, and the Anglo-Saxon Petroleum Company owns the remaining 50.

By Mr. Motherwell:

Q. The Anglo-Saxon, that would be British?—A. Yes.

Q. A British Company?—A. Yes, sir.

By Mr. Stanley:

Q. Is that the name of what we usually term the British Shell?—A. The Anglo-Saxon, as far as I know, acts in the capacity of a holding company for the Royal Dutch Shell interests.

By Mr. Bothwell:

Q. Has the Shell Corporation any interests of any kind in any Canadian oil or gasoline companies?—A. No, sir.

By Mr. Smoke:

Q. Are there any Canadian stockholders?—A. No, sir, it is a closed corporation.

By Mr. Motherwell:

Q. Now, in regard to your shipments from the middle west, do your shipments of gasoline from the middle west come by pipeline or tank car, or how?—A. Tank car, sir.

Q. Have you any central distributing point in Ontario or Quebec, or are shipments made from the middle west to whatever point or place is required?—A. Generally speaking, they come right direct to the destination, but I think Mr. Wilson will enlarge on that, if necessary.

By Mr. Smoke:

Q. To your service stations?—A. To our bulk depots in the first instance, and radiated from there to dealers.

By Mr. Bothwell:

Q. How many bulk depots have you in Ontario and Quebec?—A. Approximately 60.

By Mr. Donnelly:

Q. Have you one here in Ottawa?—A. Yes, sir.

Q. Can you give us the freight rates for tank car lots from Chicago to Ottawa?—A. I think Mr. Wilson will probably be able to give you those figures. Personally, I do not know them offhand.

By Mr. Bothwell:

Q. Would your gasoline in Ottawa come from Chicago, we will say, or from the middle west, or from the Dutch West Indies?—A. That is rather problematical. It is a question of which is the most economical way for us to lay it down. We implement it out of Montreal or Toronto, depending upon the freight rates or various other factors of distribution that enter into it.

By Mr. Donnelly:

Q. Have you a line of boats to bring it from the Dutch West Indies to Montreal?—A. Not of our own, sir.

Q. Not of your own?—A. No, sir.

By Mr. Bothwell:

Q. Do you charter boats, or do you pay a certain freight?—A. We pay market freight.

Q. Market freight?—A. Yes.

Q. What is that freight?—A. Whatever the published rates for tonnage would be in the National Petroleum News.

Q. Can you give us the figures?—A. I think Mr. Wilson can give you those figures.

By Mr. Donnelly:

Q. How much gas have you imported into Canada during the past year?—A. During the past year, sir?

Q. During the year 1931.—A. I have not the exact figures of imports, but in its relationship to sales, I would say in the neighbourhood of 30,000,000 gallons?

Q. It is 30,000,000 gallons?—A. Yes.

By Mr. Bothwell:

Q. Imperial gallons?—A. Yes, sir.

By Mr. Donnelly:

Q. Any casing-head gas?—A. No.

Q. You have imported no casing-head gas?—A. No, ours is a finished product.

Q. What duty do you pay on that?—A. On the gasoline, sir?

Q. Yes.—A. It is $2\frac{1}{2}$ cents a gallon.

Q. Have you had to pay any dumping duty?—A. No.

Q. You have not had to pay that. Do you buy any gasoline from Mexico? —A. No, sir.

By the Chairman:

Q. Has the handling of those 30,000,000 gallons of gasoline in the last year proved a profitable business or not?—A. No, sir; we lost money last year.

By Mr. Bothwell:

Q. How much did you lose last year?—A. On the whole of our operations in 1931 we lost $151,825.56, on gasoline $181,296.22.

By Mr. Donnelly:

Q. In 1931?—A. Yes.

By Mr. Stanley:

Q. The Shell Company of Canada?—A. Yes.

By Mr. Bothwell:

Q. Have you got a financial statement that you could leave with the committee?—A. I have not the balance sheet, but I have a statement which shows the split-up operations as to products, which I incorporated to show to this committee. But a balance sheet and profit and loss account can be submitted and filed whenever you wish.

Q. You say you lost $181,296.22?—A. Yes.

Q. What is the capital of this Canadian company?—A. Four million dollars.

Q. What is the par value?—A. $100 a share.

Q. Has the whole amount been issued?—A. That is the full amount issued, the authorized capital is $5,000,000.

By Mr. Pettit:

Q. One class of share?—A. Yes.

Q. All common.

By Mr. Bothwell:

Q. What is the value of your physical assets in Canada?—A. I have not the balance sheet before me, but going from memory I would say it would approximate $6,000,000.

Q. In arriving at that loss of $151,000 on all products, how much has been written off in depreciation?—A. Depreciation, $386,031.21.

By Mr. Ganong:

Q. Did you write off all that the government allows you, or more?—A. I think we wrote off in excess of government allowances?

By Mr. Bothwell:

Q. In excess?—A. Yes, sir.

Q. Why is that?—A. Conservatism.

Q. Can you give us the amount of the excess?—A. As far as 1931 is concerned, I have not the figures, but I would say the excess would be very close to $90,000.

By Mr. Smoke:

Q. That would still make a loss of $60,000?—A. Yes.

By Mr. Ganong:

Q. What price did you pay your parent company for gasoline, was it the posted price, or anything in relation to that?—A. The price we pay, sir, is the regulation bulletin price for our American imports.

By Mr. Bothwell:

Q. In 1930, what was the result of your operations?—A. In 1930 we lost a total of $222,357.91, on gasoline, $174,232.80.

Q. How much gasoline did you handle that year?—A. We handled 23,661,000 gallons.

By Mr. Pettit:

Q. Of course, during those years, dividends were passed up?—A. No dividends have been paid.

By Mr. Bothwell:

Q. Can you give us the figures for 1929?—A. I have not been asked for 1929; I have not the 1929 figures.

By the Chairman:

Q. You will file with the committee the statement you have here?—A. Yes, sir.

By Mr. Donnelly:

Q. I would like to know when the company started making losses in their operations.—A. I think, as far as my memory serves me, 1930 was the first year. Here was a year where we were meeting a falling market. We have relatively high priced inventories, and we were constantly buying on a falling market; secondly, I think it was a year where we had spent a considerable amount of money on expansion, writing off depreciation on units that had not reached anything like their earning capacity; and thirdly it was a year where we were rather reorganizing our organization here in Canada, increasing our staff and our executives, with the increased cost that would entail. I think that in itself was probably the chief reason, the first factor, essentially, that contributed to that loss in 1930. Because, then, until the end of the year, we were meeting this falling market condition, and some of it is even reflected in 1931; namely to the extent of the high priced inventory that we finished 1930 with.

Q. How much did you write off in your inventories in 1930? This depreciation, I take it, is depreciation on your plant equipment?—A. Correct.

Q. How much did you write down your stocks in 1930?—A. Well, we could not write it down for the reason that seeing that we are importers, and due to navigation closing before the end of our fiscal year,—I mean, the income tax people would not have permitted us to write it down, because our cost price was, for all practical purposes, market. There was no distinction between the two. In other words, we could not say—we could perhaps have said that the replacement value as of December 31 was X cents a gallon, but inasmuch as the material was on hand, that was our cost, and following the usual practice of cost market, which however is lower, to us, the cost was market.

Q. Did you write down any other in 1930 or 1931?—A. No sir.

Q. Stock—A. No, sir. I mean, we just carried it from one period to the other.

Q. In your financial statements then for either 1930, or 1931, there is no loss absorbed from depreciation in stock values?—A. Correct.

By the Chairman:

Q. In other words, your losses were made by the operation of your business? —A. Yes.

Q. Except the excess?—A. Correct.

Q. That you spoke of?—A. Yes.

Q. Excess depreciation?—A. No, not altogether.

By Mr. Bothwell:

Q. I do not think that is a correct statement. It is not only through the operations, but through the expansion and the fact that you were selling at a lower price than that at which you had purchased. You purchased in a high market, and you were selling in a falling market.—A. Not quite, sir. If I—perhaps Mr. Wilson can correct me later, but as far as I can remember, what I mean to imply here is this. Let us assume that gasoline cost us 12 cents a gallon, shall we say, on the 1st of January, 1930. But we could buy it in April of that year, we could have replaced that, we will say, at 11 cents, in June at ten cents; we were getting away constantly to the margin. You see, with the huge stocks with which we have to start the year, due to climatic conditions, showed us far from anything like a reasonable spread; and then, constantly as we were buying, the market was going down the whole time.

By the Chairman:

Q. That is usual in the ordinary operation of business.—A. Yes; that is what you mean by operation.

Q. Yes.—A. Yes.

By Mr. Stanley:

Q. The retail price dropping, sometimes, concurrently.—A. Correct.

By Mr. Bothwell:

Q. And you say that it was those conditions that were in effect in 1930, continued to a certain extent in 1931, and that it accounts for a part of the loss that you have given us for 1931?—A. Yes, sir.

Q. Take the year 1932, as near as you can judge, so far, in the year, does your operation show a loss or profit?—A. Well, it is difficult to say at this stage of the year, because the season is not open, and the sales in the early months of the year are relatively small; I should imagine almost everybody shows a loss for the first quarter of the year, until trade begins to pick up. I might, perhaps, draw one other fact to your consideration, and that is, in the figuring of the loss that I have shown, there is included an item of $100,000 for exchange we had to pay, which contributed to the loss as far as our 1931 figures are concerned.

By the Chairman:

Q. The year 1931 or 1930?—A. 1931, sir.

Q. That is when you lost $220,000?—A. No, that was when we lost $151,000.

Q. I am sorry. Exchange was $100,000?—A. Yes.

By Mr. Donnelly:

Q. Did I understand you to say you had no Canadian shareholders?—A. Correct.

By Mr. Stanley:

Q. During the year 1931, in the importing of your gasoline, you say there was no dumping duty?—A. No dumping duty, sir, did you say?

Q. Yes.—A. No dumping duty.

Q. Did you receive gasoline other than from the United States?—A. Yes, sir.

Q. Well, other importers claim they have had some dumping duty to pay. Did you pay the listed price?—A. Yes.

Q. The same as other importers would be called upon to pay?—A. Yes; we paid exactly as per government regulations, with the excise tax, sales tax, everything that was requested of us.

Q. So far as the importation of gasoline was concerned, the only charge against you was $2\frac{1}{2}$ cents? Of course, apart from the exchange.—A. Excise tax and sales tax.

Q. Sales tax is domestic.—A. Yes, but we have to pay it, as we have to pay sales tax on the ad valorem value.

By Mr. Donnelly:

Q. Have you a sample purchase, for example, for the year 1931 in the mid-continent field? Can you tell us what price you paid there; have you an invoice there to show it?—A. No, I have not an invoice.

Q. What did you pay in Chicago during the month of June, 1931, for gasoline?—A. Whatever the bulletin price was.

Q. Where?—A. The bulletin price in the month of June——

Q. We see the bulletin price in the month of June in the mid-continent field for group three was 2·25, 2·06, and then there would be freight from Chicago 2·4. Now, that would be a little over 5 cents. Is that the price that you would pay?—A. No, I do not think so, sir; the price we would have to pay would have been the bulletin price.

Q. That is the bulletin price I am giving you.

By Mr. Bothwell:

Q. You mean our tariff bulletin price?—A. Correct.

By Mr. Donnelly:

Q. You mean the tariff bulletin price?—A. Yes, sir.

Q. You would pay in June, 6·185 cents for a wine gallon. Then, it could be sold in Chicago to the American consumer at a less price?—A. Well——

Q. For example, in the month of June, 1931, June 20 and 22, the tank car price in Chicago was 2·25, 2·26, 2·225, 2·62, and with the freight added, which I understand from group three to Chicago is something about 2·4, it would bring it up somewhere in the neighbourhood of 4·6 to 5 cents. After all that, you will be paying there the posted price, the appraiser's price here in bulletin No. 3696, a price of 6·185—A. Right, sir.

Q. Why would you pay more than the price at which you could buy it?—A. We had no alternative, sir.

Q. You could buy from American concerns, as I have just said, for between 4 and 5 cents, and yet you are paying 6.—A. Yes; but then we would have been subject to dumping duty. The regulations provide that gasoline must be imported at the price in the bulletin.

Q. Instead of giving it to the government, you give it to the American companies?—A. Yes.

By Mr. Ganong:

Q. You allowed the other company in the United States to make the profit?—A. Yes.

By Mr. Donnelly:

Q. You allowed the company in the United States to make that difference?—A. Yes.

Q. That one or two cents, whatever it may be, instead of giving it to the government, by way of duty?—A. Yes.

By Mr. Arthurs:

Q. Is any part of that difference in price credited to your company?—A. No.

Q. The Shell Company of Canada?—A. No.

Q. It is all absorbed by the parent company in the United States?—A. Yes.

By Mr. Donnelly:

Q. You never got any of that 1½ cents that you are giving that company extra?—A. We have not.

Q. Does any of that slip back in your pocket?—A. We are not that fortunate, sir.

By Mr. Stanley:

Q. It is the same thing in regard to the importations from the Dutch West Indies?

By Mr. Donnelly:

Q. Is there any dump clause in this case?—A. No; but to elaborate on that, we asked the department what their regulations were on the subject, and they laid down a ruling, as far as importations from Dutch West Indies were concerned, showing there was no fair market value that could be placed for home consumption. They permitted us to import that on Platts Oilgram prices in the gulf.

Q. Platts Oilgram prices?—A. In the gulf, prevailing in the Gulf of Mexico.

Q. Published in the National Petroleum News?—A. Correct.

Q. If you could buy from them at Platts Oilgram prices in the month of June for 2.225, you would import it here for 2.25?—A. If such were the case, yes.

Q. You would pay in the Dutch West Indies 2.25?—A. Yes.

Q. And lay it down in Montreal, plus freight and insurance and other things?—A. Correct, sir.

Q. If we had an invoice showing a shipment of oil from British West Indies, we would be able to follow it better. Probably we could trace a shipment that you buy in the West Indies to Montreal. Can you give us that? We would much appreciate it if we could get the laid down price in Montreal.—A. I think we have some figures, here, that I thought would give you that information, sir.

Q. Which year?—A. I had one in the month of June, last year.

Q. June 1931?—A. June, 1931, we had a cargo, which cost us—

Q. What is the date?—A. I don't know the exact date, but in was in the month of June, 4½ cents per wine gallon.

Q. What kind of gasoline?—A. Our usual Shell gasoline.

Q. What is the specific gravity; what is the octane test?—A. It would be about 62, 63.

Q. The octane test would be about what; what is the endpoint?—A. Four hundred, or better.

Q. You said you paid 4½ cents a wine gallon?

By Mr. Bothwell:

Q. Is that laid down in Montreal?—A. No, f.o.b. Dutch West Indies.

By Mr. Pettit:

Q. What is it in imperial gallons?—A. It is 5.40, sir.

By Mr. Bothwell:

Q. What would your freight be on that from the Dutch West Indies to Montreal?—A. I should say nearly 1 cent a gallon, perhaps a fraction under a cent, but approximately a cent. I should say the freight, as far as my memory serves me, fluctuated somewhere in 1931 around 29 cents a barrel.

Q. At this price, that would bring it up to about 6.40 an imperial gallon?—A. Excluding duty and sales tax.

Q. Excluding duty and sales tax—well, your bulletin price.

By Mr. Donnelly:

Q. You say that is the gulf price? It looks to me you paid a big price for that gasoline. I have here the National Petroleum News, and I see gasoline with a gravity of 61/63, endpoint 390, in the month of June was quoted at 3.625, 3.50, 3.75 and so on.—A. Well, there is one thing I want to say; I want you to bear in mind the quality of the products.

Q. This is 61.—A. Yes, I know. But that is a common or garden gasoline. I mean ours is somewhat of a superior product to the ordinary stuff that you can pick up at the Gulf. I mean, there are other factors that would enter into our gasoline besides purely a question of endpoint and specific gravity.

Q. What is the octane?—A. The octane rating on this stuff would be about 68 or 70.

By Mr. Bothwell:

Q. Then, on those figures, Mr. Roger, you would be able to get that laid down in Montreal at somewhat less than you could from mid-continent or from Chicago in the month of June. You would be able to buy from Chicago cheaper. At that time, in the month of June, you paid 6.40 per imperial gallon, coming from Dutch West Indies, and you could buy it from Chicago at 6.185.

Mr. DONNELLY: That is wine gallons; it would be higher.

By Mr. Bothwell:

Q. Taking the bulletin price from Chicago, it would appear in February, 1931, the price was 7.66 per wine gallon. In the next bulletin, March, it is 6.805. In June it is 6.185, July 5.828, August 6.876, and November 7.233. Apparently those are wine gallons. Apparently you are always able to buy from the Dutch West Indies cheaper than you could from Chicago.—A. Obviously, sir.

Q. Why did you not handle all from the Dutch West Indies instead of from the Chicago field? You told us you bought about 50-50 last year.—A. Well, for the reason that inasmuch as our stockholding is about 50 per cent Shell Union group, and 50 per cent with the Anglo-Saxon group they, presumably, reserve unto themselves the right of supplying our requirements more or less in equal proportions.

Q. Have these parent companies their own oil fields?—A. Yes.

Q. In the mid-continent field as well as in the Dutch West Indies?—A. Yes, at least with this exception, the refineries are in the Dutch West Indies, and the oil fields are in Venezuela.

By Mr. Donnelly:

Q. I see here from the report that we have from our Department of National Revenue, that in the 11 months ending February 29, 1932, there were imported into Canada about 78,000,000 gallons of gasoline, and the duty on that importation was one million and some odd dollars. If we multiplied the number of gallons by 2½ cents, which is the regular duty on gasoline coming into Canada, you will find that there was practically nothing left for dumping duty, which would indicate that there was practically no dumping duty paid, which would mean that there was no dumping duty collected, or no large amount, from any concern. Is it your opinion that all importers of gasoline are doing the same thing as you are doing, that is to say, they have a company in the United States, and the one in Canada buys from the parent company in the United States, paying whatever the posted appraiser's price is.—A. I cannot answer for the other companies, sir.

Q. It looks as if they are all doing the same thing as you are.

Mr. BOTHWELL: That is the deduction.

Mr. DONNELLY: The deduction from the figures is they are doing the same thing as you are doing; buying from the parent company in the United States, at the appraiser's price, and giving them the profits instead of the government.

Mr. STANLEY: This witness should not be asked to give evidence in regard to other companies. He can give evidence only in regard to his own company.

Mr. DONNELLY: I am saying that is the deduction one arrives at from those figures.

The CHAIRMAN: Probably they have a parent company in the United States.

Mr. DONNELLY: The parent company may be in Canada, and the subsidiary in the United States.

The CHAIRMAN: I think the only fair way to get at it is to ask the companies.

Mr. DONNELLY: That is why we have the Shell here to-day.

Mr. BOTHWELL: I think you can deduce from the evidence, by taking the number of imported gallons, and the amount of casing head gasoline that comes in free. We have records of the amount of gasoline imported already in evidence and the amount of duty that was paid.

Mr. STANLEY: We have not cleared up this gasoline imported from the Dutch West Indies, in regard to the actual cost, coming into Canada; at least, I have not got it clear in my mind.

Mr. BOTHWELL: He said it was 4½ cents a wine gallon in June, which would be 5.40 per imperial gallon, and transportation was a shade less than a cent per imperial gallon, bringing it up to approximately 6.40.

By Mr. Arthurs:

Q. There is no allowance for loss in transit in addition to that?—A. No, sir.

By Mr. Bothwell:

Q. You have figured it out, I think, at 5.40 per imperial gallon?—A. Yes, 4.50 a wine gallon, and add one-fifth.

By Mr. Stanley:

Q. What is the difference in purchasing it from the West Indies as compared with purchasing in the United States. Is it any less per gallon?

By Mr. Donnelly:

Q. What was the price you paid in Chicago in the month of June?

Mr. BOTHWELL: It was 6.185 per wine gallon, and freight on that is——

By Mr. Donnelly:

Q. What is the freight from Chicago to Montreal?

Mr. Wilson: We never ship as far as that in tank cars from Chicago.

By Mr. Bothwell:

Q. Take Chicago to Sarnia or Toronto. Where do you ship to? Do you ship to Toronto in tank car lots?—A. Yes.

Q. What is it from there?

Mr. Wilson: Three cents per imperial gallon.

By Mr. Donnelly:

Q. That would be about 10.41 in Toronto.

Mr. Arthurs: No, it would be more than that.

Mr. Wilson: Excluding duty and sales tax, of course.

Mr. Arthurs: You could leave that out on both sides.

By the Chairman:

Q. Plus exchange?—A. In June, 1931, exchange did not enter into the picture; it would be par, then.

By Mr. Donnelly:

Q. What is the exchange in the Dutch West Indies? What exchange do you have to pay on the Dutch West Indies money?—A. On the basis of gold dollars, because it is sold to us by an American subsidiary.

Q. Sold to you by an American subsidiary?—A. Yes.

By Mr. Bothwell:

Q. You have to pay the same exchange whether you get it from Dutch West Indies or Chicago?—A. Yes.

Q. Although you could lay down gasoline from Dutch West Indies at 6.40 a gallon in Montreal, in June. In the same month of June you may have been buying from Chicago at a price of 10.42?—A. Laid down in Toronto.

Q. Laid down in Toronto?—A. Very possibly.

Q. Do you know what the freight is from Montreal to Toronto?

Mr. Wilson: It is about 3 cents a gallon, as well.

By Mr. Bothwell:

Q. So far as——

Mr. Donnelly: Just one moment, please.

Mr. Bothwell: I want to follow up this question.

By Mr. Bothwell:

Q. So far as your Canadian company is concerned, when you require gasoline either at Toronto or Montreal, or any point in Ontario, we will say, you leave it to the parent company to ship from whatever field they wish?—A. No, sir. We will first see the cheapest and most economical way in which we could lay down gasoline at a certain point, and that is given and we say to any of our respective suppliers, "please ship so and so; please ship so and so." By that, I mean as far as our American associates are concerned, we say, "we want a tank car of gasoline in Hamilton." But it is immaterial to us whether they ship up from Houston, as far as we are concerned.

By Mr. Donnelly:

Q. Following up your tank car prices. You say the freight from Montreal to Chicago or from Chicago to Toronto is about three cents?—A. Yes.

Q. If you were shipping from Dutch West Indies in the month of June, you would ship it by boat all the way through, likely, to Toronto.

Mr. Wilson: Only as far as Montreal.

Q. Then, you would trans-ship again by boat or put it in tank cars.

Mr. Wilson: In 1931 we would ship in tank cars from Montreal at 3 cents a gallon.

By Mr. Bothwell:

Q. Taking a shipment from Chicago to Toronto, you say the price is 3 cents. Suppose that shipment was billed through to Toronto, you would not have to pay an additional 3 cents.

Mr. Wilson: No; it is 5 cents something, I think, but I am not sure.

Mr. Donnelly: Five something.

Mr. Wilson: Five cents, but carried from Chicago to Montreal I am not quite sure of the figure, offhand.

By Mr. Bothwell:

Q. I think you told us a few minutes ago, Mr. Roger, that it is immaterial to you where your parent company ships you from?—A. I said that yes, sir.

Q. So that when you require gasoline, you must get it from your parent company?—A. Yes.

Q. Do you quote the price that you are prepared to pay?—A. No, sir.

Q. Well then, the parent company have the option to ship from any point they like.—A. Yes, sir.

Q. To you?—A. Yes, sir.

Q. And they charge you the price in effect at whatever point they ship it from?—A. Yes, sir.

Q. And you have no say as to what price you are going to pay for the shipment?—A. Well, with one mental reservation, sir, and that is, bearing in mind the ordinary practices of sane business. In other words, they would not ship it from any point that would be uneconomical, as far as we are concerned. By that I mean, taking an extreme case, they could ship from Houston, as I have previously mentioned, without asking to do so; but because the freight involved in shipping it across the American continent would be vastly in excess of the cost price of the commodity, naturally they are going to ship it from points that are most adjacent to home, so far as we are concerned.

Q. My question was, that so far as you are concerned, the Canadian company is dependent upon the parent company for supplying you gas at whatever price they charge in the particular field they ship from?—A. Correct.

By the Chairman:

Q. Would they send it from one field when they could buy it cheaper in another?—A. No. That is just what I meant when I said, "sane operations." They would not ship, for instance, from a refinery that was a considerable distance away, when they could implement our supplies from east Chicago, or possibly Detroit, or wherever they had stocks available that were close to Canada.

By Mr. Stanley:

Q. I suppose if such should happen, you or your office would not be slow to remind them?—A. Absolutely.

By Mr. Donnelly:

Q. Have you any knowledge of a shipment coming from Roumania to Montreal last year?—A. Mr. Wilson will probably answer that.

By Mr. Bothwell:

Q. Not to your company?—A. Not to our company, definitely.

By Mr. Donnelly:

Q. No.—A. I had vague recollections of hearing something to that effect, but whether it is authentic or not, I am not quite prepared to say.

Q. You have no knowledge of the price of crude?—A. No, sir.

Q. I see that this morning the paper says that gasoline has gone up one cent on account of an increase in the price of crude. You have no knowledge how much crude has gone up?—A. If so, it is purely academic. We are a purchasing company, so crude would be a secondary account, as far as we are concerned.

By Mr. Bothwell:

Q. Was your price raised this morning?—A. I imagine it was.

Mr. WILSON: During the day it will be.

By Mr. Bothwell:

Q. How do you fix your price in Canada?—A. We have no alternative; we have to follow what our competitors do.

Q. Who is your chief competitor?—A. The Imperial Oil Company.

By Mr. Stanley:

Q. What did you mean by "during the day"?—A. I think what Mr. Wilson intended to convey was this: it would be. Prices cannot be adjusted simultaneously at every point, but as we advise various people who sell our products, our own service stations, during the course of the day, those prices will be adjusted. It could not be all done, naturally, at one given moment.

Q. Who gives the orders for them to raise the price to-day?—A. Our sales department in Toronto, over which Mr. Wilson has charge.

Q. What incentive, or what prompts the sales department to make that change this morning?—A. Following the lead of every one of our other competitors.

By Mr. Donnelly:

Q. Are you prepared to give evidence concerning your own service stations, the number that you have, and the cost involved, and so on?—A. I think I can.

Q. Or is Mr. Wilson the man?—A. As far as costs go, I think—

Mr. BOTHWELL: Just before you come to that—

Hon. Mr. CHAPLIN: One at a time, Mr. Chairman.

Mr. BOTHWELL: I just want to get this right.

The CHAIRMAN: Yes.

By Mr. Bothwell:

Q. You say you follow your competitors? Is there any marketing board or marketing arrangement among different oil companies in Canada?—A. No, sir.

Q. So far as your company is concerned, you simply follow the price of your competitor?—A. Yes.

Q. Did you ever fix a price on your own initiative that others had to follow?—A. Not as far as I am aware.

By Mr. Pettit:

Q. What other companies are there in the Venezuelan field that ship from the Dutch West Indies into America?—A. I do not know that I am competent to answer that question.

By Mr. Donnelly:

Q. Are there other refineries in the Dutch West Indies besides yours?—A. I believe the Pan American have a refinery at Arouba.

Q. Where do you get your crude oil from, do you know? Where does your crude oil come from that you refine in the Dutch West Indies?—A. Venezuela.

Q. Not from Peru?—A. No, sir; I say that with reservations. As far as I am aware, that is a totally different company.

Q. In group three.—A. I do not think so, sir.

By Mr. Bothwell:

Q. You have no refinery on the Atlantic coast?—A. No, sir.

By Mr. Donnelly:

Q. How many service stations have you?

By Mr. Pettit:

Q. May I interject there, just for information, this question? Does the Venezuelan company ship crude to the Dutch West Indies, or gasoline?—A. As far as I know, I am told there—I do not think there is any refinery of any importance on the mainland, that is, Venezuela. I believe the crude is simply produced there, and eventually refined in Curacas.

By Mr. Bothwell:

Q. You do not know whether you have your own line of boats?—A. I cannot answer that question.

Q. Can you tell us how many service stations you have in Canada?—A. Approximately 80, Mr. Wilson says.

Q. Approximately what?—A. Eighty.

Q. Do you run them all yourselves?—A. No.

Q. You have some rented?—A. Yes.

Q. Can you tell us the amount of capital invested in service stations?—A. No, I have not the figures with me, sir; I cannot tell you that offhand.

Q. How many do you run yourselves?—A. Sixty, approximately.

Q. The other 20 you rent out to independent station operators?—A. Correct.

Q. What is your return? Can you give us the returns from your service stations?—A. We have tried sir—we originally tried to lease them on the basis of 6 per cent on our investment, plus taxes, but we long ago had to forget that idea, and there are various arrangements now. I think we tried to adapt ourselves to local conditions, and that is the basis we go on in the stations.

Q. Can you give us the interest you get on them?—A. At the present time?

Q. On the 20 you have rented, can you give us the interest that you get on your investment?—A. I should be very much surprised if it exceeds two per cent.

Q. About two per cent?—A. On the investment.

Q. On the investment, your gross return?—A. Yes.

Q. You have to pay your taxes out of that?—A. Yes, we probably have to pay our taxes, as well.

Q. Depreciation?—A. Depreciation comes out, naturally.

Q. When you deduct your taxes and depreciation, have you any idea of what you have left?—A. A red figure, I should imagine.

Q. You have a loss?—A. Yes.

Q. Then your profit must be made out of your 60 service stations that you are running yourself.

Hon. Mr. CHAPLIN: How much profit does he say he made?

Mr. DONNELLY: He says he has a loss; it is in red.

By Mr. Donnelly:

Q. If you have any profit at all, it must be made out of the 60 that you are running yourselves.—A. Not only that sir, there is the tank wagon business. You have to take that into consideration.

Q. Now, in connection with those 60 stations that you have, have you any distributing point for distributing stocks in connection with them, or are those distinct and separate? I mean by that, you have certain stations at some local place where you may put three or four or five tank cars—have you any place like that, or are your distributing centres absolutely separate and distinct from your service stations?—A. Correct.

By Mr. Spencer:

Q. If you are losing on all those service stations you are running, what is the object of running any at all?—A. You start off with the presumption, sir, that in renting a station to an independent operator, he can do it cheaper than you can operate it yourself. That is the presumption that you start with. What eventually happens, and our experience has been rather bad, when you lease a station to an operator, he will carry it for a certain time, preferably in the summer time, when the season is at its height, and when things begin to get slack, the next thing that you find is that he has vanished one night, completely, and returned you the keys in the mail, owing you several months rent, apart from the merchandise. That record happens to be a very true story of the leasing of service stations.

Q. Is that the case in regard to agents?—A. They are not agents; they are just tenants.

By Mr. Arthurs:

Q. You have a considerable number of jobbers in the various towns, have you not?—A. I did not hear you sir.

Q. You have a considerable number of jobbers in the various towns to whom you sell your gasoline?—A. Mr. Wilson can answer that more adequately than I can.

By Mr. Donnelly:

Q. Can you give us any idea of your return from the 60 service stations? What rate of interest do you receive on your investment from those?—A. I have not the figures in front of me, but I can give you that break-up, sir.

Q. You have not an idea of it at the present time?—A. No, I would not be prepared to quote the figure offhand, without being able to substantiate it.

Q. Is it a profit or a loss?—A. Well, whichever way it may go, I have not attempted to analyze my figures in that particular manner.

By Mr. Bothwell:

Q. How many grades of gasoline have you?—A. Two.

Q. Which grade were you quoting when you gave us this laid down price in Montreal; your best or your poorest grade.—A. Speaking offhand, I really don't know what these particular cargoes consisted of; but I would not be a bit surprised if it may have consisted, part cargo of each. Very often we have one boat which we will fill with half of one grade of gasoline, and half the other grade of gasoline.

Q. You said you were paying $4\frac{1}{2}$ cents per wine gallon f.o.b. Dutch West Indies. Is there any difference in the charge made for the different grades in the Dutch West Indies?—A. Yes; it would depend entirely upon the quality of the gasoline shipped.

Q. What is the spread between the two grades?—A. In June of that year?

Q. Yes.—A. I do not know that it would be very much; offhand, possibly one half a cent, a cent at the outside.

Q. What would be the average over a year of your spread, f.o.b. at the producing field?—A. That is difficult to say. I would have to go right back to whatever the Oilgram figures were, for the various grades shipped. I cannot say from memory.

Q. Would it vary just over a cent?—A. It may be more; it may be less.

Q. It may be more?—A. Yes.

By Mr. Donnelly:

Q. In the month of June, the cheaper variety of gasoline, 60/62 at the Gulf, averaged around 3·9; the average of 61/63 was 4·03, the average price of the 64/66 was 4·13. That would be the price practically that you would have to pay.—A. Presumably.

By Mr. Bothwell:

Q. Do you know the Imperial Oil grades of gasoline, the royal and the Three Star?—A. Do we know that? Would you mind putting your question another way.

Q. Do you know the grades of gasoline handled by the Imperial Oil?—A. Yes, as evidenced by what they sell through their pumps.

Q. You handle two grades. How does your poor grade compare with their Three Star grade?—A. I do not know that I can answer that question. I think it is rather an academic question for a chemist.

Mr. STANLEY: You have a chance to do a little advertising.

By Mr. Bothwell:

Q. Is your poorer grade of gasoline sold in competition with Imperial Three Star or Imperial Royal? Royal is their poor grade.—A. It is sold in competition with Three Star.

Q. Sold in competition with Three Star, your poor grade?—A. We have only two grades; we have a standard grade, and premium grade.

Q. Have the Imperial Oil any grade of gasoline that is sold in competition with your best grade?—A. Yes.

Q. What do they call it?—A. Premier Ethyl.

Q. To all intents and purposes, your poor grade or second grade gasoline is the grade that is sold in competition with the Imperial Three Star?—Correct.

By Mr. Donnelly:

Q. Your higher grade is sold in competition with their Ethyl?—A. Yes.

By Mr. Bothwell:

Q. In selling to jobbers, taking the month of June, what price were you charging in tank car lots?—A. You will have to refer to Mr. Wilson for that.

By Mr. Donnelly:

Q. The Imperial Oil gave us to understand when they were on the stand here, that they made more money out of running their stations than they made on those they leased. Is that your experience, or not?—A. Speaking offhand, it is not our experience.

Q. You make more money out of those you run yourselves than you do out of those you rent?—A. Yes; purely because of our very bad experience in the type of tenants that we have been able to get. They may be much more fortunate in that direction.

The CHAIRMAN: Thank you, Mr. Roger.

Mr. H. W. WILSON called and sworn.

By the Chairman:

Q. Mr. Wilson is the salesmanager of the Shell Oil Company of Canada. How long have you occupied that position?—A. About two years, now.

Q. You have been associated with the oil industry for how many years? —A. The Shell Company of Canada, just over five.

Q. Before that?—A. About five years with the Anglo-Saxon in England.

Q. So that you have been about ten years in the oil business?—A. About ten years.

Q. You are in charge of the sales of all their products?—A. Yes, under the president's general direction.

By Mr. Donnelly:

Q. Where is your office?—A. In Canada, Toronto.

Q. Where are you located?—A. Toronto.

By Mr. Bothwell:

Q. Where is the head office of the Shell Company of Canada?—A. In Toronto.

Q. You sell in tank car lots?—A. Yes.

Q. Can you give us the tank car prices that you charged to jobbers in the years 1930 and 1931?—A. I am sorry, I have not that information here.

Q. Can you give us any month in either of those years?—A. I have not got that information in front of me, but as a general rule we have to try and follow the market competition of our competitors.

By Mr. Donnelly:

Q. Would your prices vary from the Imperial Oil to any extent?—A. No.

Q. Practically the same as the Imperial Oil?—A. Yes, they practically have to be.

Q. In tank cars practically the same; tank wagons practically the same?—A. Yes, practically the same.

Q. Your service stations practically the same?—A. Yes, we just follow as near as we can what they do.

By Mr. Bothwell:

Q. So that so far as your company is concerned, in keeping books, it has not been necessary for you to figure what the spread should be between tank cars and tank wagons; you simply follow their prices and make a profit—

Mr. PETTIT: Or loss.

By Mr. Bothwell:

Q. Or loss.—A. Well, yes, mainly sir, as far as my department is concerned, yes. That is, where we have facilities to handle our sales.

Q. What price are you charging for gasoline to-day; that is, before this cent rise, in tank cars?—A. Well, it varies a little over the country.

By Mr. Donnelly:

Q. Give us one in Toronto and one in Montreal.—A. In Toronto, take our Shell, which is the grade with which we compete with Three Star, our price was $1\frac{1}{2}$ cents below the tank wagon price in Toronto.

Q. What is the tank wagon price?—A. The tank wagon price in Toronto, if my memory serves me correctly, is, or was, $17\frac{1}{2}$ cents. That would make our tank car price 15 cents.

Q. A difference of $2\frac{1}{2}$ cents?—A. Sixteen—I beg your pardon, a cent and a half below. That would make our tank price 16, yes, I am sorry. I have not got those figures in front of me. The tank wagon price was either $17\frac{1}{2}$ cents or $18\frac{1}{2}$ cents in Toronto.

Q. Can you give it in Montreal?—A. Yes, it was a cent higher than in Toronto. You see, those two provinces are split up. The tank wagon prices vary, and it is quite a feat of memory to memorize them all.

The CHAIRMAN: If I may say so, your company was instructed to bring those prices.

The WITNESS: I am sorry, I did not know that.

Mr. ROGER: May I explain that? I mentioned to Mr. Fraser before we met this morning, that the first thing we had to contend with was the illness of our president, and secondly we had a lot of illness in the way of clerical help, in the office; and there was only one series of figures we were able to get before we left Toronto yesterday. We had to get them on the run. I promised Mr. Fraser we would table any figures that you referred to and required, as long as you gave us a little breathing spell in which to compile them. We were working against the clock yesterday.

By Mr. Donnelly:

Q. We had it right from the Imperial Oil in the prices which they gave us when they appeared before the committee, that the tank car price was 13·50 before the rise in prices yesterday, and the tank wagon price was 17·50.—A. It was $17\frac{1}{2}$ cents, yes; that would be our price. What grade is that?

Mr. BOTHWELL: That is the premier grade.

The CHAIRMAN: One at a time, please.

By Mr. Donnelly:

Q. "The present tank car selling price of Premier or Three Star grade is $1\frac{1}{2}$ cents per gallon below the tank wagon."—A. That is substantially the same as our own.

Mr. BOTHWELL: I think possibly Dr. Donnelly is giving you the wrong picture there.

Q. That was the tank wagon and service station price, and it covered the premier grade in the west, and the three star grade in the east. These two grades represent over 90 per cent of the total sales. Now what was quoted was the tank wagon price of the three star, and their tank wagon price at Montreal is 17·50, present prices on the market, 1931.—A. That would be our price on that date, in tank wagons, 17·50; for it is one cent lower in Toronto.

Q. Your price on March 31 would be 16·50 in tank wagons?—A. Can you tell me what the Imperial price was?

Q. I cannot tell you in Toronto, but the price in Montreal is 17·50.—A. I beg your pardon.

Q. Your first statement was wrong. Toronto is 17·50. It must be the same as Montreal.

By Mr. Donnelly:

Q. We had evidence here on Tuesday that the tank car price in Ottawa is 15 cents. You tell me you are charging 16 cents in Toronto, and only charging 15 in Ottawa?—A. I think I had better, so that you can be quite clear, and I am not misleading you, go over those prices once more. Our tank wagon price in Toronto and Montreal is, or was before to-day, $17\frac{1}{2}$ cents. That is for Shell, which is the equivalent to Three Star. Our tank car price of our Shell branded gasoline, that is, tank car prices in both those cities on the 31st March, was $1\frac{1}{2}$ cents below tank wagon prices, which would make it 15 cents in each city, Montreal and Toronto.

Q. Sixteen?—A. It is $17\frac{1}{2}$ less $1\frac{1}{2}$.

Q. Sixteen?—A. It is 16. I am sorry. Just one cent and a half below tank wagon price. That would be the way we figured it.

Q. That is what I said. On Tuesday we had two buyers, or jobbers, who were buying gasoline in the city of Ottawa, in tank car lots, say they were paying 15 cents for it. You say your price in Montreal and Toronto is 16. How do they get it so cheap?

Mr. Pettit: It costs them that laid down in Toronto.

Mr. Donnelly: No, in Ottawa. We had an invoice to show it.

Mr. Pettit: Imported.

Mr. Donnelly: Bought from the British American, and from the Imperial Oil, and their price was 15 cents.

Mr. Smoke: Is that the same grade?

Mr. Donnelly: Yes, the same grade.

Mr. Pettit: My impression was it was cost plus duty.

Mr. Donnelly: No; this is where they were buying locally.

The Witness: That would not be our price; that would not be Shell branded product here.

By Mr. Arthurs:

Q. That was British American.—A. I don't know what their prices are here at the moment, but our prices for Shell branded gasoline in Ottawa to-day or in 1931, would be $1\frac{1}{2}$ cents below our tank wagon prices here.

By Mr. Motherwell:

Q. Can you tell us what your tank wagon was or is in Ottawa?—A. I cannot tell you that offhand, but it will be substantially the same as the Imperial tank wagon price in Ottawa for that day. Have you that information here?

Q. I think, Mr. Chairman, that we should have those prices filed in order to meet this sheet of the Imperial Oil found at page 254 of the Evidence.

The Chairman: Yes. The prices given by the witness the other day on tank cars, is a lower grade gasoline, and it was $17\frac{1}{2}$ cents in Ottawa. This is the evidence that was given by the witness the other day:—

"The tank and wagon price on the lower quality gasoline is $17\frac{1}{2}$ cents.

"*By Mr. Donnelly*

"Q. And what is the ordinary quality?—A. $18\frac{1}{2}$ cents."

That is found at page 392 of the Evidence, Mr. Donnelly.

Mr. Bothwell: Whose evidence is that?

The Witness: If you will permit us, we will present you with our tank wagon price throughout Ontario and Quebec.

By Mr. Donnelly:

Q. And your tank cars?—A. Yes.
Q. And your service stations?—A. Yes.

The CHAIRMAN: That is the evidence of Mr. Beak.

Mr. BOTHWELL: They had a laid-down price of 13·60 up until some time last year, and then the price was changed to 15, and then they had two sorts of invoices there, showing their laid down prices.

Mr. DONNELLY: At page 392 I say this:—

"Q. I see that the price they say, between Montreal and Ottawa, as they claim, is one cent difference in the price between the two cities, that Ottawa is one cent higher. As I see here, the price that is given to us by the Imperial Oil, for the present price in tank car lots in Montreal, is 13.50. You claim that they are charging you here 15, now?—A. Yes."

The CHAIRMAN: Lower down, the witness says this:—

"The tank and wagon price on the lower quality gasoline is 17½ cents."

Tank and Wagon.

Mr. DONNELLY: What page is that?

The CHAIRMAN: "The tank and wagon price on the lower quality gasoline is 17½ cents." Then Mr. Donnelly asks:—

"And what is it on the ordinary quality?—A. 18½ cents."

That is found at page 392 of the Evidence, near the bottom.

Mr. DONNELLY: That is not what we are talking about. We are not talking about tank wagons, we are talking about tank car. That should be tank wagon. The "and" should be left out. That is an error in the printing.

By Mr. Bothwell:

Q. In any event, your price per tank car is 1½ cents under the tank wagon.—A. Our tank wagon price; that is correct.

Q. If your tank wagon price in Montreal is 17.50 your tank car price would be 16.—A. Yes, our tank car for Shell gasoline, yes.

Q. That is what it would be in both Montreal and Toronto?—A. Yes.

Q. You cannot give it to us for Ottawa?—A. I would rather not, offhand, because I am not obsolutely certain of it; but we can have all that information for you to-morrow morning.

Q. I think we should have that in order to check up on these figurers we got on Tuesday.

The CHAIRMAN: I suppose it would be the same as the other companies?

The WITNESS: The major companies, yes.

By Mr. Bothwell:

Q. Do you make any special cut in prices, or make any special prices to any of your jobbers, or do all the jobbers get treated alike?—A. What do you mean by "jobber".

By Mr. Donnelly:

Q. In tank car lots.—A. In tank car lots, yes. We have a few jobbers whom we have had for some time, who have been with us for several years, and who operate in smaller territories, more or less, of our own. That is, they more or less represent the Shell there, and to that class of jobber we give a slightly different price to enable them to carry on a retailing business.

By Mr. Arthurs:

Q. Where they carry on a wholesale business, in their own tank cars, and supply sub-stations, how much would the spread be, four cents or a little more? —A. No, it would vary between $1\frac{1}{2}$, and 4 at the very outside, depending upon the locality and the size of the jobber's business, and general conditions like that. They vary between $1\frac{1}{2}$ and 4.

By Mr. Bothwell:

Q. Can you tell us what proportion of your total sales in Canada is sold to jobbers?—A. That is to say, including those few special jobbers?

Q. Yes.—A. Our ordinary tank car buyers, the whole class of tank car buyers—for 1931? Just one moment. Roughly speaking, I should think about 10 per cent; that is, offhand, around 10 per cent.

Q. That would leave 90 per cent by your tank wagon, or through your own stations?—A. Correct.

By Mr. Donnelly:

Q. Can you give us any information concerning those 60 stations that you run yourselves?—A. What sort of information?

Q. The amount of capital invested, and the returns you get.—A. No, I am afraid I cannot. That is rather outside my category, I am afraid.

By Mr. Bothwell:

Q. Have you any record of shipments from the Dutch West Indies over 1930 and 1931?—A. Have we records?

Q. Yes, here.—A. Yes, we have just the—

Q. The average for the year, or month by month.

Mr. ROGER: The actual cost of each shipment?

Q. Possibly we could get a few of those for 1931, if you would—just enumerate them, whatever you can give us, shipments from the Dutch West Indies, and as to what they cost you.

The WITNESS: The first shipment—this is f.o.b. Curacas refining—

By Mr. Donnelly:

Q. F.O.B. where?—A. F.O.B. refining prices. The first shipment was in April 1931. It arrived in April, at the end of April 1931, and the price was 5·25 cents per wine gallon.

Q. These are all wine gallons?

Mr. BOTHWELL: Give it to us in imperial gallons, too.

The WITNESS: And the imperial gallon equivalent to 6.30.

By Mr. Stanley:

Q. That is what you call your Shell gasoline?—A. Yes.

By Mr. Donnelly:

Q. That is your first one.

By Mr. Bothwell:

Q. Your best grade, standard grade?

Mr. ROGER: Yes.

The WITNESS: The second cargo we had was in June; and that cost us 4·50 cents per wine gallon, or the equivalent of 5·40 per imperial gallon. A further cargo came in July, and it cost us 3·0625 per wine gallon, or 3·675 per imperial gallon.

By Mr. Stanley:

Q. What was the wine gallon?—A. It was 3·0625. Do you want more?

By Mr. Bothwell:

Q. Yes, go right through 1931.—A. In August it was 3·3125 per wine gallon, 3·3125 United States. I beg your pardon. The wine gallon was 3·3125 and the imperial gallon 3·975. In September the wine gallon was $5\frac{1}{4}$ and the imperial gallon 6·30. There was a second cargo in September, and the same prices prevailed, $5\frac{1}{4}$ and 6·3. In October there was a shipment, 4·375—

By Mr. Donnelly:

Q. What was that again?—A. 4·375, equivalent to $5\frac{1}{4}$ per imperial gallon. The final cargo was in November, at 4 cents, or 4·8 for an imperial gallon. That constituted our cargo shipments for 1931.

Q. Can you give us the freight on those and the other charges laid down in Montreal?—A. I have not the freight here, but as far as I can remember, the average freight was just under 2, a difference of a cent a gallon.

By Mr. Bothwell:

Q. An imperial gallon?—A. Yes. For the majority of those cargoes. In addition, we paid duty, $2\frac{1}{2}$ cents, and whatever sales tax and/or excise taxes or any tax that was in force during that year.

By Mr. Donnelly:

Q. I think it would be interesting if you took each of those shipments and gave us the price laid down in Montreal, figuring it out by adding the duty, the freight, the sales tax, and the excise tax. Give us just what each of those shipments actually cost you to deliver them to your stations per gallon in Montreal on those dates.—A. Laid down in Montreal in bulk?

Q. In bulk, yes. I think the committee should have that. It would be very instructive.

Mr. ROGER: With your permission, gentlemen, in a half hour or over, I think we could work these things out here for you.

The WITNESS: It would be reasonably approximate.

Mr. DONNELLY: You will have to have the exchange too.

Mr. ROGER: We would have to go back for that.

Mr. DONNELLY: We want to know exactly what it cost you laid down in Montreal.

Mr. ROGER: I will have to know the prevailing exchange rates at the time the shipments were made.

Mr. DONNELLY: If you had your invoices here it would be easy.

Mr. BOTHWELL: If you took the months of June and November, say, would it be easier?

Mr. ROGER: June and November? You want the complete laid down prices?

Mr. BOTHWELL: You could take the highest and the lowest.

Mr. DONNELLY: July is the lowest, and September is the highest. September and April are high. September and July would be good months.

Mr. ROGER: September and July, the complete laid down price for the Montreal cargoes.

Mr. BOTHWELL: I think you had better add November because we will be able to compare them with the lowest boat.

Mr. DONNELLY: Instead of September you had better take April. That would be distributing it, one at the beginning, and one at the end.

Mr. PETTIT: Plus duty, sales tax, and excise tax.

Mr. ROGER: Sales tax would have to go on, plus duty?

Mr. PETTIT: Mr. Wilson mentioned excise tax.

The WITNESS: It would go in, anyway, and/or excise tax if it was in effect at that time.

The CHAIRMAN: If those statements are given to the committee, by way of filing, is that all the information you want, or do you intend to continue questioning the witness.

By Mr. Bothwell:

Q. You are giving those laid down in Montreal?—A. Laid down in bulk, Montreal.

Q. Just before we close with this witness, may I ask this question. Can you give us the shipments you have received from the middle west field, Chicago, 1931?

Mr. DONNELLY: Have you any files?

Mr. ROGER: No sir, we have none with us.

Mr. BOTHWELL: You can furnish those as soon as you get back to Toronto?

Mr. ROGER: Yes; but I would like to point out, as I said in my own evidence, those shipments come in in tank cars, and it would be very voluminous. Would it not suit your purpose to just designate, we will say, a typical case?

Mr. BOTHWELL: Take April, July and November, the same as the others.

Mr. ROGER: By that, may I understand this: each of those cargoes referred to will probably consist of a couple of million gallons every time, and naturally to give you the equivalent of one cargo would necessitate a lot of work. You do not expect us to give you, shall we say, 250 tank cars?

Mr. BOTHWELL: No. Let us understand each other. What we want you to do, Mr. Roger, in taking April, July and November, is to make a computation down to fractions of cents per imperial gallon.

Mr. ROGER: I understand that.

Mr. BOTHWELL: No matter what the value of the shipment was, if you could do the same thing as Mr. Wilson is going to do in connection with the Dutch West Indies, in regard to your Chicago shipments, together with excise tax and so on.

Mr. ROGER: Correct. To Toronto?

Mr. BOTHWELL: To Toronto.

Mr. ROGER: Yes.

Mr. BOTHWELL: For those same months.

Mr. DONNELLY: Do you ship from Montreal to Toronto in tank car lots?

Mr. ROGER: No. We may. It is a matter of expediency. It is a question of cities, and supplies. There may be several alternative methods of supplying.

Mr. BOTHWELL: Practically all your gasoline that you sell in Toronto comes from the United States?

Mr. ROGER: I would not go so far as to say that, because in 1931 there were a few odd boat loads transhipped from Montreal by water to Toronto, and then radiated out from Toronto.

Q. That is what I was asking about? You do transhipping from Montreal by boat? Would it be transhipped by boat, or transhipped by car in those cases?—A. By ship, if it were cheaper.

By Mr. Bothwell:

Q. You say your ordinary spread between tank wagon and tank car is $1\frac{1}{2}$ cents?—A. That is shell gasoline, yes.

Q. Is it possible for a distributor to make a distribution with that spread?—A. Probably not a distributor.

Q. Take a jobber buying at your tank car price, could he distribute it and sell it in tank wagon, at tank wagon prices, with only $1\frac{1}{2}$ cents margin?

Hon. Mr. CHAPLIN: He told you a few minutes ago it was as high as 4 cents.

Mr. DONNELLY: He said $1\frac{1}{2}$ cents.

Mr. CHAPLIN: He says in some cases, to some distributors, the variations were as much as 4 cents.

Mr. BOTHWELL: That was special men.

WITNESS: Those are special jobbers who handle Shell products in almost the same way as we handle them ourselves. A man who buys $1\frac{1}{2}$ cents below, usually has a service station attached to his tank car depot, so that he has got probably no retailing. He has no tank wagon business of his own. He merely retails straight from the tank car. You see what I mean?

Q. Why do you fix a spread of $1\frac{1}{2}$ cents as between the tank wagon and the tank car, if it is not possible for a man to do business on that $1\frac{1}{2}$ cents?—A. We are merely following what our more experienced competitors do here. We do not set our own tank car prices.

By Mr. Bothwell:

Q. I cannot follow those prices. When you say $1\frac{1}{2}$ cents spread, what do you mean?—A. May I explain further. The average jobber, or the man who buys in tank car lots, and has a little distributing organization of his own, if he contracts—that is what we have done in the past, we sometimes give him, as I explained before, a larger spread than $1\frac{1}{2}$ cents, because he has some tank wagon values of his own. But a man who merely buys the odd tank car from us, we sell him $1\frac{1}{2}$ cents below.

By Mr. Donnelly:

Q. The man who handles a million gallons in a year?—A. A million gallons in a year.

Q. Yes. Would he be considered——A. He would be considered——

Q. A small jobber or a big jobber?—A. He would be considered a big jobber in Canada?

Q. You would give him a bigger spread?—A. Oh, yes.

Q. Where is the line drawn between a small jobber and a big jobber? What would be a small jobber, how many gallons would be the dividing line?

The CHAIRMAN: He does not go on gallonage, he goes on the business they do.

WITNESS: It is a matter to be decided on each case. We have no hard and fast rule, less than a million gallons in Canada is hardly a large jobber.

By Mr. Donnelly:

Q. Ten per cent of your gasoline sales are sold to jobbers?—A. Yes.

Q. What percentage would be sold to jobbers on this cent and a half margin?—A. Oh, very small.

Q. Very small?—A. Very small indeed.

Q. So that really the tank car price as posted means practically nothing.—A. It is a term for our brand, really.

Q. Well, in other words, the posted price of tank cars, as we were given them by the Imperial Oil, so far as your business is concerned, means nothing, because you sell practically nothing on that basis?—A. Very little indeed.

By Mr. Stanley:

Q. Just one question. Last day, it was given in evidence, that one of the importers in Ottawa lost from $1\frac{1}{2}$ to 2 per cent of the amount purchased in his tank by reason of the deduction which took place because of the measuring of gas by a temperature standard. What is your experience in regard to that as a jobber?—A. Do you mean the extent of the loss; our experience in regard to the extent of the loss?

Q. He says the extent of his loss was from $1\frac{1}{2}$ to 2 per cent.—A. Well, I was speaking offhand. We consider in view of shipments, about one half of one per cent to be the normal loss, the normal working loss on a volatile product like gasoline, especially in tank cars.

Q. By reason of what?—A. Evaporation, really.

By Mr. Donnelly:

Q. Don't you find when you bring in your gasoline and put it in the ground, that you take out less gallons? After you bring your gasoline in, and put it in the ground do you take out as many gallons through the service stations in a measured gallon?—A. We bring all ours—

Q. I beg your pardon?—A. All our gasoline sir, in that way, for record purposes in shipping, and all purposes, is brought to a basis of temperature at 60 Fahrenheit.

By Mr. Bothwell:

Q. For shipping purposes?—A. We bill customers at 60 Fahrenheit.

By Mr. Donnelly:

Q. Now, when you come to a service station, you put the gasoline in the ground at 60 degrees Fahrenheit. Do you have much loss in selling it to customers through the tank? That is, do you have much gallonage loss?—A. Do we lose gasoline in our service stations?

Q. Yes.—A. Very little.

Mr. ROGER: It depends on the temperature.

Mr. DONNELLY: That is what I am trying to get at. You bring it to the service station, and you put it in the ground. When it is in the ground it will be lower than 60 degrees Fahrenheit.

Mr. ROGER: Possibly.

Mr. DONNELLY: In the majority of cases, it would be at less than 60 degrees Fahrenheit in the ground all through the winter.

Mr. ROGER: That is correct, in regard to the winter months. It will be.

Mr. DONNELLY: We had evidence here the other day that even in western Canada, with those tank cars coming to their station, that the gasoline is measured at 60 degrees Fahrenheit, by the Imperial Oil. Now, in the same way, when you are selling it out in a measured gallon do you lose much? According to the customer, the loss is very heavy; that he is really paying for gas that he cannot get out of his service station. Have you had a loss in that way?

Mr. ROGER: Not that I am aware of.

Mr. BOTHWELL: Evidence was given, that a man buys gasoline we will say, at 20 degrees Fahrenheit. On his invoice he was charged for may be 230 gallons, or something of that kind, in addition to the tank measurement in that car, on account of the temperature. A man buying in Chicago will be paying for 230 gallons more than the car actually contained on account of the temperature. That will be right. But when he came to sell it, he says he was selling it at the same temperature as he bought it, and he lost 230 gallons.

Mr. ROGER: He makes it in the summer.

WITNESS: He gets it back in the summer. That is a working operation, is it not?

Mr. BOTHWELL: That is what we want to know.

Mr. ROGER: Mr. Bothwell, may I say this. I think you will find—I don't know whether anybody ever goes to the trouble of getting adequate statistics on it, I do not think it would be worth it—but I would say offhand that bearing in mind the actual amount of sales in the cold season, taken in relation to the temperature, what any dealer might lose during the winter, selling a measured gallon, as you put it, he will get back with interest in the summer months when the temperature is vastly in excess of 60.

Mr. BOTHWELL: Will you give us your explanation of this? A dealer tells us this, and he shows the invoices, of cars shipped in the summer at a temperature of 81, for which he received credit of a certain number of gallons in order to bring it to 60. He says that he puts it in the ground where the temperature goes down, and that he loses again in the summer. One dealer told us that.

Mr. ROGER: Yes. But it is all relative, sir. What I am trying to convey to you is this. Let us take some hypothetic figures. If a million gallons were sold during the hot season, where the temperature, we will say, was 20 degrees above 60, when he puts this in the ground and the temperature billed to him when he received the gasoline was 80, and by the time it gets into the ground, let us assume it is 72, and he has lost 8 points. He is comparing that possibly 150,000 or 200,000 gallons that he will sell in the winter, which he has put in the ground when the temperature is at 40. He is profiting on that deal in the course of the season.

Mr. STANLEY: That is all hypothetical, relative. Why do jobbers insist on setting this figure at 60 degrees fahrenheit?

Mr. ROGER: Because it is a very good way of doing it sir.

Mr. STANLEY: Would not there be a more practical way?

Mr. ROGER: If it all works—

Mr. STANLEY: Would not there be a more practical way of selling gasoline to a jobber who sells it, and a jobber who buys it, so that he would pay for what he gets?

Mr. ROGER: That would mean, sir, practically having somebody at each destination point checking out the outlet quantity, and knowing the temperament of the average jobber, I think he will be just as likely to complain under a system like that, as he is under the present system.

Mr. STANLEY: No, it is simply a matter of checking the liquid contents.

Mr. ROGER: What ground have you got for that, sir? Let us take a tank car, say, going from A to B. A is the jobber, and when he gets the car he unloads it, or supervises the unloading, and maybe he would say, " I have received X gallons." You must either take his word or not.

Mr. STANLEY: When you ship from Toronto to Ottawa, I understand that at Toronto you determine what gallonage is there, at 60 degrees.

Mr. ROGER: Yes.

Mr. STANLEY: That is final, and he receives it here.

Mr. ROGER: Yes.

Mr. STANLEY: You deduct on your invoice 220 gallons, or whatever the case may be. That takes definitely into account not the liquid contents which you actually sell in Toronto, but the liquid contents which you sell in Toronto at a standard of 60 degrees Fahrenheit.

Mr. ROGER: Yes.

Mr. STANLEY: What I am getting at is, would it not be more convenient in deducting from a car at Toronto, the right amount, and fixing then and there the gallonage which the man at Ottawa must receive?

Mr. ROGER: I say this. I fill this car; I absolutely guarantee that there were 8,000 gallons in it at the right temperature of 72, 8,000 gallons——

Mr. STANLEY: Supposing—

The CHAIRMAN: Let him finish.

Mr. ROGER: All that my customer will pay me is the quantity adjusted back to 60.

Mr. PETTIT: He is the gainer.

Mr. ROGER: Exactly. I have no indication of what the temperature will be by the time it reaches its destination. I would be completely in his hands. He could tell me that he unloaded half the gallonage; and with a product that is subject to temperature fluctuations, apart from the evaporation factor in itself, you must have some basis on which to work, I should imagine. Seeing that the oil industry has been in force for a number of years, and this thing has been found equitable from experience, I am not convinced in my own mind, of any gross inequities. If such were the case, it would have been changed long since.

Mr. DONNELLY: What service stations complain of is not the method by which it is has been measured. They claim it may suit warmer climates like the United States where they can break even because of the many warm months in the year, but in Canada where there is a cold climate, 60 degrees is too high, and where we have only a couple of warm months in the year, to give them a chance to make anything, the 60 degrees should be set down to around 52.

Mr. ROGER: You may be right with regard to the west. I am simply going on my own personal opinion, and bearing in mind the relationship of the volume of sales during the hot weather, versus the very small quantity that is sold during cold weather, my own opinion is that the dealer is ahead of the game. I think it would be an extremely difficult thing to prove.

The CHAIRMAN: The witnesses the other day said the dealer was always behind the game.

Mr. DONNELLY: You must understand in the warmer months the evaporation would be much greater.

Mr. ROGER: There should be a very immaterial evaporation in the ground. In my opinion it has a very minimum effect.

The CHAIRMAN: In your opinion then, the dealer does not lose?

Mr. ROGER: That is my personal opinion.

Mr. STANLEY: The average dealer?

Mr. ROGER: Yes; I will say it with reservations. I have not the remotest opinion what the conditions would be in the west.

The CHAIRMAN: We were dealing with cases in Ottawa.

Mr. ROGER: In Ottawa?

The CHAIRMAN: Yes.

Mr. ROGER: I would say offhand, as my personal opinion, there would be very little in it.

Mr. DONNELLY: Have you any records to show at your service stations, the amount of gasoline you actually put in and the number of gallons you actually sold out, and as to how you came out, in your own service stations?

Mr. ROGER: No, that would be a very academic opinion; I think it would be extremely difficult to connect, because you would have to take the temperature of the gallons against those figures, sir. I am not an engineer, but I will give you a layman's view. Let us assume this tank, I mean the pump, has the rays of the sun beating on it at one particular point. Then you are going to have certain variations in temperature there. By taking a dip in the tank at one particular point versus any other, in order to get the average temperature of the gasoline, it would be very hypothetical.

Mr. BOTHWELL: The Imperial Oil gave evidence here that they allow for evaporation, or shrinkage, or whatever you may call it, 50 gallons per tank car to their dealers in the summer months, and 20 gallons per tank in the winter months. Does your company make an allowance like that?

Mr. ROGER: No.

The WITNESS: Small tanks in the ground?

By Mr. Bothwell:

Q. That is on their jobber's tanks?—A. Big tanks above ground?

Q. Yes.

By Mr. Donnelly:

Q. If you had a service station in Ottawa, and you put in 1,000 gallons or 50,000 gallons during the year do you do any checking up as to how many gallons you get out of it?

Mr. ROGER: We do sir. We have never experienced any loss in our service stations.

Mr. DONNELLY: It seems to me you would be checking the service stations, if you put 1,000 in, or 10,000, to see whether you got 10,000 out.

Mr. ROGER: They do. They must do.

Mr. DONNELLY: That is what I asked you to do, to give us how much you put in and what was taken out.

Mr. ROGER: The exact quantity. We never experienced any loss.

Mr. DONNELLY: You never experienced any loss in your service stations?

Mr. ROGER: No, sir.

Mr. DONNELLY: They always sell out what they get?

Mr. ROGER: Yes.

Mr. STANLEY: We had evidence here last day where a man claimed that the measurement of gasoline taken in and the measurement which he computed as being sold out, varied as much as 500 gallons in a tank car.

The CHAIRMAN: In a month.

Mr. DONNELLY: In one month.

Mr. STANLEY: It was 240 gallons in one tank car? It did appeal to me to be rather absurd.

The CHAIRMAN: He claimed he never got it back. In your service stations that you operate yourselves, in which you keep a record, you make no loss in gallonage?

Mr. ROGER: No, sir.

Mr. SPENCER: Has this any connection. In all service stations, there are between 7 and 8 gallons in the pumps, whether the gas is allowed to expand or otherwise.

Mr. PETTIT: That receptacle is always ready for you.

Mr. BOTHWELL: If that station is very active, it does not stay there very long.

The CHAIRMAN: Gentlemen, we shall now adjourn at the call of the chair.

Committee adjourned at the call of the chair.

APPENDIX

SHELL OIL COMPANY OF CANADA LIMITED

CAPITAL STRUCTURE

THE SHELL COMPANY OF CANADA, LIMITED—
Incorporated by Dominion Letters Patent, dated 15th August, 1925.

AUTHORIZED CAPITAL STOCK—
10,000 Shares of $100 each .... $ 1,000,000 00

ISSUED CAPITAL STOCK—
10,000 Shares of $100 each .... $ 1,000,000 00

CONSIDERATION—
All existing assets (except Book Debts) of The Shell Company of Canada, Limited, a Company incorporated by Letters Patent of the Province of Ontario .... $ 901,600 00
Cash 98,400 00
$ 1,000,000 00

INCREASE IN CAPITAL STOCK (3RD APRIL, 1930)—

AUTHORIZED CAPITAL STOCK increased by 40,000 Shares of $100 each to .... $ 5,000,000 00

ISSUED CAPITAL STOCK increased by 30,000 Shares of $100 each to .... $ 4,000,000 00

CONSIDERATION—
Cash .... $ 3,000,000 00

NOTE.—Re Change of Name—The name of the Company was changed to "Shell Oil Company of Canada, Limited," by Supplementary Letters Patent, dated 26th August, 1931.

SHELL OIL OF CANADA LIMITED, 1930

—	Gasoline		
	Quantity	Value	
SALES	23,661,329	$ 4,849,417 59	
DEDUCT			
Cost of Sales, as per Schedule "A"	....	3,567,122 86	
Gross profit	....	$ 1,282,294 73	Cents per gal.
DEDUCT			
Operating and selling expenses	....	834,316 15	
Insurance, taxes, etc., applicable to bulk depots and service stations	....	57,145 68	
Administration and sales overhead	....	300,740 33	
		$ 1,192,202 16	5·0386
Profit and Loss before charging depreciation	....	$ 90,092 57	·3807
DEDUCT			
Depreciation	....	$ 264,325 37	1·1171
Net operating Profit or Loss	....	$ *174,232 80*	*·7364*

Schedule "A"

SHELL COMPANY OF CANADA LIMITED—COST OF SALES—1930

	Gasoline
Inventory 31st December, 1929	$ 568,217 42
Add	
Purchases	$ 2,785,252 11
Duty, sales tax, etc	210,090 80
Freight and distributing points	899,681 12
	$ 3,895,024 03
	$ 4,463,241 45
Deduct	
Inventory 31st December, 1930	$ 790,566 49
Value of products lost in handling and consumed in Company's operations (included in expense)	105,552 10
	$ 896,118 59
Cost of sales	$ 3,567,122 86

SHELL OIL OF CANADA LIMITED, 1931

—	Gasoline Quantity	Gasoline Value	
Sales	31,096,679	$ 5,488,960 93	
Deduct			
Cost of sales, as per Schedule "A"		3,957,270 66	
Gross profit		$ 1,531,690 27	
			Cents per gal.
Deduct			
Operating and selling expenses		$ 911,723 40	
Insurance, taxes, etc., applicable to bulk depots and service stations		95,803 53	
Administration and sales overhead		298,517 94	
		$ 1,306,044 87	4·1999
Profit or Loss before charging exchange and depreciation		$ 225,645 40	·7256
Deduct			
Exchange		$ 85,010 89	
Depreciation		321,930 73	
		$ 406,941 62	1·3086
Net operating Profit or Loss		$ *181,296 22*	*·5830*

SHELL COMPANY OF CANADA LIMITED—COST OF SALES—1931

Schedule "A"

	Gasoline
Inventory 1st January, 1931	$ 790,566 49
Add	
Purchases	$ 2,128,028 85
Duty, sales tax, etc	876,303 21
Freight to distributing points	722,927 60
	$ 3,727,259 66
	$ 4,517,826 15
Deduct	
Inventory 31st December, 1931	$ 482,352 82
Value of products lost in handling and consumed in Company's operations (included in expenses)	78,202 67
	$ 560,555 49
Cost of Sales	$ 3,957,270 66

SESSION 1932

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

TUESDAY, APRIL 26, 1932

No. 15

Reference.—Price of Gasoline

WITNESSES:

Mr. A. E. Halverson, Sales Manager, Western Canada, Imperial Oil Ltd.

Mr. R. S. Campbell, General Counsel, White Star Refining Co., Detroit.

Appendix,—Statement filed by McColl-Frontenac Oil Co., Ltd.; Statements filed by Shell Oil Company of Canada; Statements filed by Witness Halverson.

OTTAWA
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PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1932

MINUTES OF PROCEEDINGS

House of Commons,
Tuesday, April 26, 1932.

The meeting came to order at 10.30 a.m., Mr. Matthews presiding.

Members present: Messrs. Arthurs, Baker, Bothwell, Donnelly, Fafard, Ganong, Howard, Matthews, McPhee, Pettit, Smoke, Stanley.

A. E. Halverson, General Sales Manager, Western Canada, of the Imperial Oil Limited, was recalled and examined.
Witness retired.

Mr. Ross Campbell, General Counsel of the White Star Refinery Company, Detroit, was called, sworn and examined.
Witness retired.

The committee adjourned sine die.

A. A. FRASER,
Clerk of the Committee.

MINUTES OF EVIDENCE

House of Commons,
Tuesday, April 26, 1932.

The Select Standing Committee on Banking and Commerce met at 10.30 o'clock, Mr. Matthews presiding.

The Chairman: Gentlemen, if you will come to order, we shall proceed. This morning, we have Mr. Halverson of the Imperial Oil Company, who asked me if he might be permitted to make one or two corrections. I told him that, of course, would be in the hands of the committee. You will remember that Mr. Halverson gave evidence here some time ago. Mr. Halverson is the sales manager of the Imperial Oil Company for Western Canada. If it is your pleasure that he be permitted to make those corrections, I shall call on him.

Mr. Baker: Are the corrections in his own evidence?

The Chairman: I did not ask him that.

Mr. McPhee: Do you require a motion, Mr. Chairman?

The Chairman: I do not think so.

Mr. McPhee: If so, I make that motion.

A. E. Halverson recalled.

The Chairman: You have been sworn, Mr. Halverson.

Witnesss Yes. We have no corrections to make in the evidence we gave here previously; but the other day Mr. Coplan of Ottawa gave some evidence in regard to the alleged tank car shortages. A gallon of gasoline the world over is its volume at 60 degrees. To arrive at that unit of measure, a gallon of water equals ten pounds, and every other liquid of whatsoever character, gasoline or otherwise, is based on that standard, which is used, as far as I know, throughout the world. Therefore, when we sell a tank car of gasoline, it is naturally based on 60 degrees Fahrenheit, to comply with the law. Gasoline contracts in cold weather, and expands in warm weather; and when we sell a tank car, in every instance we make due allowance for that. For instance, if a tank car is filled at 70 degrees Fahrenheit, and the volume of the tank car is say 7,000 gallons up to the shell, we deduct a certain amount from that 7,000 gallons to bring it back to 60 degrees, or inversely, if the tank car is loaded at 40 degrees, we add the correct amount to bring it back to 60. We would like to file as evidence, a list of representative tank cars charged out from the Toronto division during the past year. We would give you just one or two instances. On July 3, 1931, we shipped out a tank car at 82 degrees temperature. The volume of that tank car to shell capacity, was 5,267 gallons; but we deducted 82 gallons to make up for the temperature, and only charged him for 5,197 gallons. On July 20, 1931, we shipped another tank car of 6,775 gallons capacity, at 60 degrees, of course; but as the temperature was 72 degrees when that tank car was loaded, we gave the man in question a credit note of 49 gallons. In the winter time, it works out just the opposite. We do not know what refineries across the line are doing, but I doubt very much if they are giving over measure. And it is rather significant that the dealings that Mr. Coplan referred to with oil companies in the States were tank cars loaded in warm weather when the temperature was over 60 degrees; and from hastily reading through the evidence, I do not notice where he submitted any tank cars purchased across the line where the temperature was less than 60, and, therefore, the evidence was misleading.

We want to definitely go on record that either at Ottawa or in any province in Canada or in any city in Canada we give correct measurement by tank car or by tank wagon, and no exceptions. Throughout the world the unit of measure is recognized as the volume at 60 degrees Fahrenheit, and if we were to sell on any other basis, we would not be complying with the law.

Now, you may wonder on what basis we arrive at the adjustment for temperature, either above 60 or below 60. It is based on a table supplied by the National Standard Petroleum Oil tables, Bureau of Standards, United States government which, as far as I know, is accepted everywhere. We will file that table as evidence. To conclude our remarks on that particular subject, Mr. Coplan or anyone else gets the exact measure, when he buys from us, based on the unit of standard, which is 60 degrees. Of course, in the winter, when gasoline contracts, he stands the loss, the same as we do, or the same as any other oil company does. We all have to stand that loss in the wintertime, on account of the contraction of gasoline. He is in no different category from any of the rest of us. When we were in western Canada, at Regina, this question came up for discussion, about measurement——

By the Chairman:

Q. Do you mean at the inquiry of the committee there?—A. Yes, sir. And we pointed out to them that in Texas, where the weather is warm, and where most of the gasoline is delivered by tank wagon, where the temperature is in excess of 60 degrees, the oil companies get the break. In Saskatchewan where the mean average temperature during the entire motoring season is only 54, the consumers out there do not only get measure, but they get a little extra.

By Mr. Stanley:

Q. In the wintertime, do not the retailers get a little the worse of it?—A. Yes, and we all do.

Q. No, in this way. You do not because you measure and test it according to the standard, and sell it accordingly.—A. No, when we sell by tank wagon, we give the consumer one bucket filled to the top although as gasoline has contracted, we are giving him more than a gallon at 60.

Q. In tank cars?—A. The same thing with a tank car.

Q. When you sell a tank car to the dealer in Ottawa, you sell it on the basis of 60 degrees Fahrenheit, standard.

Q. Well, when he sells that tank, after it is received here, to me in my car, and to the rest of the people, he can take no account of the 60 degrees Fahrenheit.—A. But we are in the same position; because when we ship from our refinery to Ottawa we collect no money until we make the sale, and if we make the sale by tank wagon, when the temperature is 20 degrees above zero, we stand the same loss as he does.

Q. That is, if you sell it to him in tank wagons, but if you sell it to him in tank cars, what about that?—A. What I was trying to point out is, if we sell him a tank car when it is 20 above zero, there is a contraction. But we likewise realize nothing until we sell the gasoline by tank wagon, and while the same day that he is getting that tank car at 20 above zero, we are selling by tank wagon at 20 above zero, and taking the same loss as he is. Now, there are so many questions to cover—

Q. Not on on the particular car that he buys.—A. We stand exactly the same loss as he does.

Q. In your retail business?—A. Because we eventually have to sell before we collect anything. When we ship a tank car to Ottawa, it does not yield any profit; we have to sell it. When we sell we are subject to the same laws of nature as he is.

Q. When you sell a tank car at Toronto, where do you measure it; where do you measure according to the temperature standard. You measure it when it leaves Toronto or before it leaves Toronto.—A. Well, when we ship a tank car, the temperature is taken at the refinery.

Q. Yes?—A. And that happens when we ship ourselves, the same as though we shipped to a jobber. When we sell by tank wagon at 20 above zero, no adjustment is made for temperature; we stand the loss.

Q. Yes, I get that. You take one particular tank car that this man buys, at your refinery in Toronto he gets the invoice at 60 degrees Fahrenheit sent to him from your office in Toronto. It is delivered here, say to Ottawa, and he sells it from a service station to me, to put in my car, when he takes no account of the 60 degrees Fahrenheit. He sells it at 40 or whatever the temperature happens to be.—A. So do we.

Q. I know, but not in connection with the tank.—A. Whether you make it one tank, or spread it over 15 tank wagons deliveries, it amounts to just the same, and do not forget gentlemen, that when the temperature is 72 we give him a credit note.

Q. Yes, I realize that.—A. It works both ways, and it is based on the unit of standard throughout the world, for gasoline, which is 60 degrees.

Q. Suppose he buys a great deal more in the summer time when it is 72, than in the winter time when it is 40.—A. It pretty well equalizes.

By Mr. Smoke:

Q. Is there any attempt to adjust the cost by raising the price in the winter time, and lowering it in the summer time, to the consumer?

Mr. HOWARD: It is the other way around.

By Mr. Smoke:

Q. Lowering it in the winter time?—A. No, sir.

Q. No attempt?—A. No, sir.

By Mr. Stanley:

Q. If it pretty well equalizes each other, why do they insist upon the use of the standard?—A. Well, if the law says a gallon is the volume at 60, we have to follow the law.

Q. Change the law.—A. I would like to deal hurriedly with the report of the committee of the Saskatchewan legislature.

By Mr. Bothwell:

Q. Before going into that, there is a question I should like to ask Mr. Halverson on the evidence he gave the other day. I want you to turn to the table on page 377 of your evidence, Mr. Halverson. At the bottom of that schedule, you say, "Imperial Oil base price exclusive of freight, varies from 8.80 to 4.30 per gallon." Where do you take that base price from?—A. We covered that thoroughly in our evidence the other day, and said that due to a misunderstanding of our pledge by the co-operatives of the west, every time we reduced our tank wagon prices out there, they insisted on a corresponding reduction in the tank car base.

Q. Who insisted?—A. The co-operative oil companies in the west and the oil jobbers, and during the period in question, we reduced our tank wagon price $4\frac{1}{2}$ cents. Under that alleged obligation, we were forced to reduce our tank car price $4\frac{1}{2}$ cents, so that we were selling cheaper than duty-free distress gasoline.

Q. Well, does that apply only in the west?—A. There are no co-operatives in the east, so far as I know.

Q. How do you establish your base price at any time? How is your original base price established?—A. The base price is supposed to be low enough to meet competition, and it includes exchange, sales tax, excise tax, and there is no duty in it—it is supposed to include duty, if there is any. The only thing that the jobber or the co-operative has to pay in addition to the base price is the actual freight rates. I might say the base price also includes freight surcharge.

Q. We will take this item to-day, and the same for 1932. How is your base price of 7.30 arrived at? I should like you to tell us how that 7.30 is arrived at. What are the component parts of 7.30?—A. I just gave you the component parts.

Q. Give them to us in figures.—A. Well, I would be glad to do that, and I will do it. If from that 7.30 you deduct sales tax, excise tax, freight surcharge ——

Q. If you will give us the figures, we shall draw our own conclusions.—A. ——exchange, it comes to less than group 3, refinery market. But I would be glad to figure that out for you.

Q. Have you got your figures there?

By Mr. Donnelly:

Q. Do you mean to say there are some places where you can go and buy gasoline for 7.30, base price?—A. That is our group 3 base price.

Q. There is some place where you sell gasoline for 7.30?—A. All over the west. We sell it all over Saskatchewan——

Q. In tank car lots?—A. Yes, plus freight, and it works out cheaper than duty-free gasoline.

By Mr. Bothwell:

Q. Plus fictitious freight?—A. Plus actual freight.

Q. Then, on the date you gave evidence here, you should be able to buy gasoline in Regina for 7.30, plus freight from the mid-continent field?—A. Yes, sir.

Q. That is a fictitious freight charge, is it not, because you have the gasoline right in Regina?—A. It means we are selling less than duty-free distress gasoline, and that seems to be doing pretty well under present conditions.

Q. That is a matter for the committee to draw conclusions from. We want to get the facts from you. What you would do is take your base price, no matter whatever way it is fixed, and then you would add to that price freight from the mid-continent field to Regina, where your refinery is?—A. Yes.

Q. Although there was no freight actually paid?—A. Well, may I answer that another way? That is a point they have stressed in the committee at Regina. The major oil companies in North Dakota enjoy the same——

Q. Is that the fact?—A. Yes; but let me explain. Just a moment, please. They enjoy the same rate of freight on crude oil as we do. They pay no duty on crude oil in North Dakota.

Q. Your base price of 7.30 includes crude oil, does it not?—A. Yes, but North Dakota——

Q. Answer that question.—A. I said yes, sir. The North Dakota market is a larger one than Saskatchewan, and if there were such a protection in this so-called high freight rate on gasoline, why do they not build refineries in North Dakota, instead of bringing in their gasoline from group 3 by tank cars, the same as we do?

Q. I am not answering questions; I am asking you questions. We are trying to get at some of the facts. Can you give us the figures that enter into this base price of 7.30?—A. Just the ones I have mentioned, Mr. Bothwell.

By Mr. Donnelly:

Q. Where is that?—A. I mentioned it includes excise, sales tax, exchange, freight surcharge; it includes them all.

By Mr. Bothwell:

Q. I should like to state this to you: I have gone through all of this evidence, the evidence given by Mr. McCloskey, and by Mr. Ross, and I fail to find the base price any place in the evidence of 7.30. So I want to know how you arrive at that base price of 7.30.

By Mr. Donnelly:

Q. Where can you buy gasoline for 7.30 to-day?—A. That is our group 3 price. I cannot make it any plainer. The only other alternative would be for us to quote group 3 prices, and let the customer pay exchange, freight surcharge, sales tax, and the excise tax.

By Mr. Bothwell:

Q. The fact is it is impossible to buy Canadian gasoline at a price of 7.30 any place in Canada.—A. 7.30 plus freight.

Mr. DONNELLY: There is no freight.

By Mr. Bothwell:

Q. Plus freight. That is, plus freight that is not paid; is not that a fact?

Mr. HOWARD: Yes.

WITNESS: You cannot expect us to sell—

Q. Never mind what we can expect; will you answer the question?—A. I cannot answer it any plainer.

Q. Answer this: is it possible to buy from the Imperial Oil gasoline any place at any refinery you have in Canada, at a price of 7.30?—A. No, sir; as the laid down tank car price of gasoline duty-free in Saskatchewan is 20.78, so you cannot expect us to sell for 7.30.

By Mr. Donnelly:

Q. Tell the committee the difference between the freight on crude oil from group 3 in Oklahoma to Regina, at the freight on gasoline. What is the freight on crude oil, as compared with gasoline?—A. I am not familiar with the freight on crude oil.

Q. Is the freight any cheaper on crude oil than it is on gasoline?—A. Yes.

Q. You get a different rate?—A. Yes.

By Mr. Bothwell:

Q. At what rate does crude oil come through?—A. I am not familiar with that.

By Mr. Donnelly:

Q. Your crude oil comes in not only duty-free, but at a cheaper freight rate?—A. Yes, sir.

By Mr. Bothwell:

Q. Now, when you quote a price for gasoline at your refinery in Toronto, you quote a price of 7.30 plus freight from either Pennsylvania of mid-continent.—A. Not in the east. In the east we quote tank car price at so many cents per gallon below the tank wagon price.

Q. Where do you arrive at your tank wagon price? In what part of Canada is your tank wagon price fixed?—A. Well, various parts of Canada would have various prices, depending on the costs and competition.

Q. Suppose I go to your refinery in Toronto, and I want to buy a tank car of gasoline; you quote me a price. How is that price made up for the tank car? A. I cannot add to the former evidence; it is just fixed on the cost and competition.

Q. You would start out with this base price, I suppose, of 7.30?—A. I mentioned a moment ago, in the east it is so many cents below tank wagon.

Q. So there is no tank car price in the east?—A. I might mention there has been a great deal of talk about not a sufficient tank car margin in the east. I made it my business to check up on tank car margins across the line.

Q. I do not care anything about across the line; I want to find out how you fix your price at your refinery.—A. I cannot add to what I have said, Mr. Bothwell.

Q. Well then, can you give us the figures that enter into that base price of 7.30?—A. Well, I will repeat what I have said already.

Q. That is no good. I want to get the actual figures that enter into that base price of 7.30.—A. Well, I have given those, and I will substantiate them with the actual figures, if you like.

Q. You will name the different charges that enter into it?—A. Yes.

Q. You have not given us those charges.—A. I will be glad to do so.

Q. Can you give them to us?—A. I will have to figure it out; it will take a few minutes, I will figure them out and give it as evidence.

By Mr. Bothwell:

Q. I should like to ask one question. On page 379 of your evidence, you state the base price per wine gallon for U.S. motor 57/65 octane gasoline was 5 cents.—A. Yes.

Q. Where is that taken from?—A. From group 3, from the National Petroleum News.

Q. On that date, April 9th?—A. Yes, sir, it is now 5½ cents.

Q. Then you add excise tax, 3 per cent and sales tax 6 per cent.—A. Yes.

Q. You were giving this evidence just two days after there had been a change made. You had this figure made up to April 9th, when the budget was brought in on April 6th.

Q. Between the date on which the budget was brought in, and the day that you gave this evidence, on April 9th, there had been no change made by the Imperial Oil on their tank car prices in western Canada.—A. No, sir.

Q. There has been since?—A. Yes.

Q. Has there been an increase of 2 per cent and sales tax?—A. What was that?

Q. Has there been an increase by the Imperial Oil of the 2 per cent sales tax?—A. That has not been taken into consideration.

Q. Or the 2 per cent excise tax?—A. No, sir.

Q. Neither one has been taken into consideration?—A. No, sir.

Q. In this particular schedule, you are giving us your Saskatchewan price before there was any change made by reason of increased sales tax or increased excise tax?—A. Yes.

Q. But you are giving us the American prices with the increased sales tax and the increased excise tax?—A. No, sir.

Q. Well, just look at that again. At the top of the page you say, "Excise tax, 3 per cent." That is after the increase. "Sales tax, 6 per cent." That is after the increase.—A. Well, I would like to make this statement.

Q. Is not that correct?—A. Yes. I would like to make this statement, that in February, a long while before this budget came down, and in last August, we were selling gasoline by tank wagon and in tank cars in Saskatchewan, for instance, cheaper than duty-free distress gasoline.

Q. I just wanted to see the method under which you make up your comparative statement, there.—A. So that that increased sales tax and increased excise tax in no way altered the picture. What was true after the budget was true before the budget.

Q. There has been no change made in the price up to April 9th by reason of this increased excise and sales taxes?—A. Nor since.

Q. Nor since?—A. In our prices.

Q. But there has been an increase of one cent a gallon?—A. Yes, based on the increase in crude oil from 62 cents to 92 cents, an increase of 30 cents per barrel, which works out to 1½ cents per gallon on gasoline, exclusive of exchange on that crude oil.

Q. Going back to page 377 again, I see the difference in your base price of 8.80 and 4.30 between September 1st, 1930, and July 23rd, 1931, is made solely on account of the pledge you gave to the government.—A. As a result—

Q. And the demand made by the co-operatives.—A.—of the pledge being considered to cover tank cars which it never was intended to do.

Q. That reduction of 4½ cents was never carried through to the retail end of the business, was it? That reduction in your tank wagon was never carried through in the retail prices?—A. We were selling our tank cars too low.

Q. So you reduced your tank car and held up your retail or tank wagon?—A. No, during that period in question our tank wagon prices came down 4½ cents.

Q. Where?—A. In Saskatchewan.

Q. Your reduction came down 4½ cents in tank wagons? Have you any figures there to quote us the price? I have not been able to find that reduction of 4½ cents.—A. On September 1st, 1930, the tank wagon price at Regina was 26 cents; on July 23rd, 1931, the tank wagon price of gasoline at Regina was 21½ cents.

By Mr. Donnelly:

Q. When was that?—A. July 23rd, 1931. A reduction of 4½ cents per gallon, exactly the same as the tank car reduction.

Q. How long did you keep it there at 21½ cents? July 28th it advanced one-half cent per gallon.—A. But on that day the tank car went up one-half a cent.

Q. In three weeks it went up another 1½ cents.—A. Yes; crude oil advanced in August last year. In August last year there was a very drastic increase in the price of crude oil, as you perhaps know.

By Mr. Bothwell:

Q. You will give us that statement as to how your base price is arrived at?—A. I will be very glad to, Mr. Bothwell.

Q. You told us the other day that the tank wagon and service station prices in the United States are the same?—A. In my evidence I stated that in the states of Minnesota and North Dakota, they were exactly the same, which is correct. I also stated, in certain portions of the United States it way not be correct.

Q. Where does the service station man make his money if the tank wagon and service station price are the same?—A. Dealers get a discount off the tank wagon, and the farmer does not.

Ross Campbell, called and sworn.

By the Chairman:

Q. You are connected with what company?—A. The White Star Refining Company.

Q. The White Star Refining Company?—A. Yes.

Q. Where do they refine?—A. In Michigan, and in Illinois.

Q. What is your position there?—A. I am general counsel of the company.

Q. Counsel?—A. Yes.

Q. Employed by the company?—A. Yes.

Q. How long have you been with the company?—A. Six years.

Q. There has been a good deal of talk, and many references have been made to American prices, and Detroit prices have been quoted. I should like you to tell us something about the price of gasoline in Detroit, and the position of the industry there.—A. The price of gasoline in Detroit, and I am giving the price now of the regular grade of gasoline, which is the intermediate grade—most companies in Detroit and throughout Michigan sell three grades of gasoline, the cheap grade, rather inferior quality, which was put on the market for the purpose of meeting bootleg competition; and intermediate grade, which is our standard house brand, and in the case of our company, the two premium grades, one of which is ethyl, and the other a high volatile gasoline. The price of the regular house grade to-day, not including tax, is 9½ cents a gallon.

By Mr. Stanley:

Q. Wine gallon?—A. Wine gallon.

Q. That is, 12½ cents including the 3 cents tax, or 8 gallons for a dollar, tax paid.

By the Chairman:

Q. A price of 12½ cents?—A. Including tax.

Q. Wine gallon?—A. Yes. That price is limited to Detroit only, and there are graduated steps up. The state-wide price varies on account of freight differentials on the same grade, between 13 and 13½ cents without tax, or 16 and 16½ cents including tax.

By Mr. Bothwell:

Q. Can you tell us what it is in Grand Rapids?—A. I don't know. Grand Rapids is depressed, but not as bad as Detroit. I would say the price in Grand Rapids would probably be in the neighbourhood of 11½ to 12 cents. I am not exactly sure; you will find practically all metropolitan centres have depressed prices, which is due to causes beyond our control at this time.

By Mr. Stanley:

Q. The state tax is 3 cents?—A. Yes, sir.

By the Chairman:

Q. How about the price in Illinois?—A. The prices in Illinois are higher. Detroit has the lowest price, so far as I know, of any spot in the United States, on account of very unusual conditions there, a combination of circumstances have forced us to that point. We have sold gasoline, for your information, exclusive of tax, as low as $5\frac{3}{10}$ cents per gallon. That was when the so-called price war was at its height.

By Mr. Stanley:

Q. Standard gas?—A. Standard gas, before the introduction of the third grade. Obviously, we ran in the red very heavily. Would you care to have me go ahead and make a statement?

The Chairman: Yes.

The Witness: I understand, gentlemen, that I was asked to come down to tell you something about the condition of the industry as it is in Michigan, and in the United States. I shall try to point out to you some of the elements the American companies have had to contend with, which may or may not be the case in Canada. So far as my knowledge goes, they are not the case. Prices in the United States, generally, have been depressed for a period of two years or more. These depressed prices have been due to two primary causes. First, the over-production of crude, which has been made possible, and forced upon the industry and upon the country by the fact that the oil industry in the United States is literally drowning in a flood of laws. The Sherman Anti-Trust Act and all of its amendments, make impossible any agreements except purely voluntary agreements of a very limited nature, which would permit any co-operative scheme looking to the reduction of crude in an amount equal to consumption. I do not intend to deal with that primarily, but to tell you something about the second item of great importance, which has come to the attention of the industry quite recently, and that is the devastations that the evasion of the gasoline tax has upon the industry.

The gasoline tax, as you probably know, was first put on in the state of Oregon in 1919, and it was a one cent tax. It was quickly followed by North Dakota. In the first year——

Mr. BOTHWELL: I think we have 25 pages of this, along with reports from newspapers in the states. I do not think there is anything in that connection that we do not know. Have you read the evidence of Mr. McCloskey, Mr. Campbell?

The WITNESS: Yes.

By Mr. Bothwell:

Q. Is there anything new that you can add to what was given by Mr. McCloskey?—A. I do not intend to deal, Mr. Bothwell, with newspaper comments, in so far as that is concerned, but to tell you of my activities and my own experience, and what has actually happened, if you care to hear that. It is not the usual thing that gets into newspapers.

The States levy a gasoline tax in amounts varying from two cents to seven cents. There are now two states with a tax of seven cents per wine gallon. The state territories are naturally smaller than the territories of your provinces. They have spent those billions of dollars that have been collected on the tax in the building of concrete roads. The industry felt that that would add to the sale of gasoline. It did, but it likewise provided fine highways for the operation of bootleggers. The oil industry knew that something was wrong because of the fact that those competitors, those irresponsible competitors, could continually sell gasoline to the public at a price lower than the well-established and well-managed oil companies could do. We worried along with the problem for some two or three years, before it finally dawned upon the oil industry what the trouble was. And, as a matter of fact, the oil industry itself did not discover the problem, but it was discovered by a newspaper man by the name of Dan Gallagher, of the Chicago *Daily News,* who stumbled upon a kidnapping. He found and proved that the kidnapping was perpetrated by gasoline bootleggers. He uncovered a ring of bootleggers in the state of Illinois, who had been defrauding the state of millions of dollars annually. That investigation immediately spread, and every state began to look into its own situation. In October last year, in Michigan, we organized what we called the Michigan Gasoline Tax Evasion Committee, which is a committee composed of oil men—I happen to be chairman of the committee. Before, however, the committee was formed, drastic steps had been taken by our company. For two years or more we had been pounding upon the doors of the state to get relief. The state of Michigan sells annually about 800,000,000 gallons of gasoline; at least that is the amount on which tax has been paid. The state has been collecting something in excess of $20,000,000 a year gasoline tax. A primary survey made by our committee of the conditions led us to believe that in the state of Michigan alone there was at least $2,000,000 a year not getting into the state coffers. That represents roughly ten per cent of the total gallonage on which tax was not being paid. After a most careful survey, and a complete investigation over a period extending from October to the present time, we are now convinced that $2,000,000 is a conservative figure. We figure that the state is probably losing twice that amount. Now, that means this, gentlemen: the state tax is three cents, companies operating over the entire state, and companies of consequence, must of course, obey the law and pay the tax, but the irresponsible does not. You will find the bootlegger operating in all of the metropolitan centres. Oil companies, the large oil companies must, of course, service small communities as well as large communities, but the bootlegger is always found in the large communities. He has several different methods of operation, and at all times he has a three-cent or a two-cent margin on the big company. If a man could have a margin of two or three cents over the Imperial Oil or the McColl-Frontenac here, he could run them out of business. That is practically what happened to us. These men are not men who are financial paupers. Many of them have made literally millions out of this racket. This racket has been going on for years. There has been no effort to curtail it. In the state of Michigan, for instance, take the collecting of the tax of over $20,000,000 a year; the entire staff charged with the collection of the tax was one director, one investigator, and about eight or ten girls who checked the records. The tax is a receipts tax; that is, the tax is paid upon tank cars when they come to rest at the first point within the state. The facilities of the state were inadequate. They could not obviously check 800,000,000 to a billion gallons of gasoline a year with one man; the oil industry was doing nothing. It was just the most fertile field in the world for racketeering of that sort. That condition in Michigan is typical, practically, of the other states. The same condition existed in many of the states. The Director of Finances of the State of Pennsylvania admits that the State of Pennsylvania has lost as much as $6,000,000 in a single year. It is difficult to estimate to what extent this evasion has been carried on. A few months ago, it was a conservative estimate that in this one industry the total evasion in the United States was in the neighbourhood of $60,000,000 a year, but after the expenditure of a large sum of money on the part of the industry in investigations, that figure has now been raised from $100,000,000 to $300,000,000 a year. There was in 1930 approximately 16½ billion gallons of gasoline on which tax was paid. Probably in that same year there were 2½ to 7½ billions on which tax was not paid.

Q. Where are those figures obtained from. They are just an estimate, are they?—A. That is all it could be.

Q. I see investigators in the States who made that investigation, say $40,000,000?—A. Those figures, undoubtedly, are old.

By Mr. Pettit:

Q. Where do those racketeers, bootleggers, get all this enormous quantity of gasoline they are able to traffic in?

By Mr. Bothwell:

Q. The evidence given by Mr. Boyd before the House of Representatives at Washington on February 2, 1932, refers to $40,000,000?—A. I have another statement here of Mr. Paul Hadlick, secretary of the American Petroleum Institute, who gives the figures I have quoted. These figures were given in the month of March. Of course, we cannot tell, Mr. Bothwell, what the exact figures are.

Q. It is really only a guess?—A. It is a guess.

By Mr. Pettit:

Q. Can you answer my question?—A. Will you repeat it?

Q. Where do these bootleggers get those tremendous quantities of gasoline that they are trafficking in?—A. The American Petroleum Industry is an industry where the tail wags the dog. It is an industry where approximately 90 per cent of the business is carried on by large integrated companies and associated companies, distributors, and jobbers. However, ten per cent is carried on by independent men who perhaps have a refinery, and with no sources of outlet. Particularly during the past few years, when the country has been flooded with crude, and this crude going to those wildcat refineries, who have always been in the picture, but who previously had been able to establish legitimate outlets for marketing the gasoline, then found themselves without marketing sources, because the big companies likewise had too much crude, and stock to be manufactured. So that this 10 per cent found themselves without a market. They naturally manufacture an enormous quantity of gasoline, and that has been the gasoline that has gone into the hands of the so-called bootlegger.

Q. Is there not a check-up on the output of those companies by the authorities?—A. There is comparatively none.

Q. So that they might be able to follow it to its destination?—A. Here is the condition on that. The Federal Constitution of the United States provides that no state shall interfere with Interstate Commerce. That means that commerce can pass freely between states, and no state can place a tax upon it or interfere with it or check it or stop its progress in any way.

That refers to the traffic between states. Is there any check by the particular state?—A. Until the first of this year, there has been no state that has secured any figures from producers; there has been no check made; there has been practically no state that has any figures from any other state; none whatsoever from refineries. It was not until the American Petroleum Institute itself this year, worked out a plan whereby something of that kind was done. There are only about 90 per cent of them doing it, reporting to the various states the amount of their output, and where it goes there is no method of checking.

By Mr. Stanley:

Q. A tank wagon taking gasoline from a perfectly reputable refinery in one state, and carrying it across the border for sale in the other state without paying a tax in the first state, is doing a perfectly legal transaction, is he not? —A. Well, it is legal until he does not pay it in the second state.

Q. That is what I mean.—A. Yes. There is, you see—

Q. So that the tank wagon bootlegger would not be restricted to a bootlegging refinery?—A. No, quite so.

By the Chairman:

Q. In what way is the tax collected there?—A. Each state has its own law, and of course, they vary.

Q. I understand that; but where is the tax collected on gasoline?—A. The tax is collected in most states when the gasoline is received into the state, and comes to rest. The United States Supreme Court has said that the merchandise is, and continues to be an interstate commerce product, until it comes to a final destination. Therefore, if a man takes a truckload of gasoline from Ohio into Michigan, he may continue his journey until it comes to rest, which may be 100 miles or 200 miles within the state. It is not until this tax attaches, that there has been any crime committed. And then, on top of that, the tax is collected not when the gasoline arrives, but probably 30 or 50 days after that. In other words, if the gasoline was shipped into Michigan in the month of April, the tax for that amount is not levied or assessed until the 20th of May. Some States, California for instance, collect it only quarterly; so that they have a chance to evade the tax in an amount which far exceeds the value of their investment in business. When it comes to the point where the last day arrives, and they cannot pay the tax, they will say to the state, "Well gentlemen, here is our business, and we are through."

By Mr. Pettit:

Q. Are not there any state checks on the output of the independent companies in that particular state?—A. None whatever. All gasoline that is exported from a state is tax exempt.

By the Chairman:

Q. What effect has this so called bootlegging on prices?—A. That again, gentlemen, is just the best guess I can give you. It is my personal opinion from investigation of the facts in Michigan and surrounding States, that the evading of the gasoline tax has meant a reduction in retail price of not less than three cents, and probably as high as five cents a gallon. Now, when you consider the methods of operation you will see that it is true. Here is a man that comes into Detroit, with a station or a chain of stations; and it only takes a few stations to ruin the market price, and people will flock to that locality where prices are lower. To illustrate that point: we had a gentleman in the city who we put in this class, who had a station directly across the street from ours. During one month he sold through his pumps in excess of 300,000 wine gallons. His price was lower than any place in town. Our station in that month did less than 10,000 gallons. The next month we decided to meet him, to try it for a month, and during the succeeding month we did 276,000 gallons and he did 30,000. That is just an indication of what one price cutter can do in a community. He drew those customers from all points within the radius of ten miles, probably.

Now, this man starts in with a station or a chain of stations and depresses the price. The only way a tax evader or a bootlegging concern can get the volume is to cut prices, because on an equal basis he cannot compete with national goods or a nationally advertised brand. He cuts from 1 to 2 cents a gallon, and two things happen: first, he steals gallonage from the legitimate tax paying distributor. Secondly, he increases our overhead, because he builds up his volume from a few thousands a month to from ten to a hundred thousand a month. Through a single outlet his cost per gallon is diminished, so he can operate on a much lesser margin of profit per gallon than we can. Contrary to that our cost per gallon has gone up, so we have, in order to break even, to increase our business, or increase our prices.

I think it is only right to say, gentlemen, that this tax evasion scandal in the United States is probably the largest swindle, and the largest scandal that has ever been connected with any American business. Probably the only racket of its kind that is comparable to it, and is larger than it, is the dodging of the Prohibition Act, and that act does not primarily affect any one line of industry, as this one does. But the time may come, when sufficient facts are developed, that this racket may even be as great as the prohibition racket. Consider this, gentlemen, one is different from the other. The dodger of the prohibition act at all times is carrying an illicit and illegal product. He is liable to arrest by either the federal or the state authorities at any time of the day or night; but in the case of the gasoline evasion racket, it is different. He is carrying a legitimate product. He cannot be stopped at any time and questioned, because gasoline is a product that is a common commodity, and is a perfectly legal product. It is not until some time later, 50 or 100 days later, that it becomes an illegal transaction, that of one or two months ago. It is an almost insurmountable problem. The state officials have co-operated to the fullest extent, but because of their laxity in the past, it has come to be a State subsidy of the bootlegger. The oil industry has suffered tremendously. I noticed in some one of the exhibits that one of the gentlemen testifying gave some figures of the earnings of the oil companies in the United States. This might be of interest to you, to know that our company last year, a company that normally earns a good many times more, earned a net profit of about $\frac{1}{4}$ a cent a gallon; and that was a very miraculous showing, when most companies were going in the red. This racket has with it, gentlemen, all of the criminal elements. There is kidnapping, and bombing, hijacking, collusion, conspiracy, everything that goes with that sort of racket. It has invited in people with the best racketeering minds. I have definitely connected gasoline tax racketeers with the prohibition racketeers. A few weeks ago in Detroit, one of our notorious racketeers had gypped the state for the third time, and as long as there are no criminal prosecutions, and there has only been one in the United States, they will continue to do it. This one gentleman had got into the state for the third time to the tune of ten or fifteen thousand dollars. The state seized his property last fall, and they called up and asked if we would send a man who was acquainted with the equipment to give a price on the equipment. That gentlemen said the only equipment there was some third class equipment, but there was a first class alcohol still which evidently had been operated in the basement of this place. I don't know what they did with the still. In addition to the tax evasion, there are so many other angles to this game, that they make it an industry. Here is one that I just learned of the other day. It was a case where stock certificates were being counterfeited. These stock certificates were perfectly engraved and could hardly be told from the original. They were taken by a group of those operators down to a bank in the southern States, and they were posted with this bank as collateral for loans. They took the money back to Chicago to compete in the gasoline business with the company whose certificates they had counterfeited. We have had another kind of counterfeiting, and that is the counterfeiting of coupon books. We sell coupon books to customers, who place them in the hands of their chauffers and employees, to save them bothering with cash, and we redeem those coupons at their face value. Our company discovered a couple of months ago that we were being flooded with counterfeit coupons, on very much the identical paper. There was just one little extra curve in the five on the five cent coupons that made it possible for us to detect it. I would be ashamed to tell you how many thousands of dollars we were gypped, and that we gave gasoline away for those worthless pieces of paper. Another racket that is rather interesting, and which is part of the whole scheme, is what we call the premium racket. It is almost impossible to sell gasoline to-day in Detroit without giving something away. If you buy so many gallons of gasoline, you get some water glasses or some razor blades, or a bottle of milk, or what have you. The way these fellows work it is this: these premium racketeers come around to the station and tell a man that he must have premiums to sell his gasoline. So they get a load of water glasses or something else, and when he gets his carload in, he starts dishing them out. Most of those station operators are not business men of the most intelligent type, and do not always figure the cost, and the racketeer knows that. In a few days a customer is complaining because his gas is too high; he is giving away all the profits on the water glasses. He would be probably selling a national brand of gasoline. The racketeer then says, "That is all right we can fix that." Now, "Here is what we will do; we will sell you a gasoline which is equal in grade and colour to the one you are selling, and we will make dumps of this at night. We will give it to you at two cents under what you are paying for it." And so they chisel in on the gasoline under their premium racket. Then, they make these dumps at night. I was told by a State official last week that there was one bulk plant in Detroit from which 75 tank trucks were operating every night. Now, you think that those tank trucks are easy to catch. They are not; because we find this is done; some of those tank trucks that go into the stations of legitimate companies will be painted exactly as the trucks of the legitimate companies, and the drivers will wear the same kind of uniform, and any investigator looking for things like that thinks it is a regular truck coming in making the dump, and does not think twice of it. I have seen them come in with a truck loaded with gasoline, dump it, and when they leave the plant they will colour it any colour you want; blue or green or red, or whatever it is. I have seen so many things that I cannot begin to tell you. I have seen truckloads of gasoline going out under armed guards; two men will follow in a car with revolvers in their pockets, because some other bootlegger might take that load away from them on the highway, and they have to fight for it, or keep them off with pistols.

Q. Are the purchasers required to take an account of the licence number of the tank wagons that are delivered to them, and report them?—A. Yes; but then we get into the question of how we are going to convict those fellows. We have tried that several times without success. We have a law against substitution. But then if you do get a case, we find that when we get into court the prosecuting attorney, before he will put the case up to the court, says you must be able to prove that this gasoline is being pumped into the tanks. That means if we see a man sticking a hose in the tank, he may not be pumping at all, it may be just motions. The only thing we can do is to go and pull the hose out, and see what is going on.

Q. Why not. Put the onus on the man who receives the gasoline to see that he gets it legitimately.—A. They do not do it that way over there. Everybody is presumed to be honest.

By Mr. Baker:

Q. Is there any law which puts a man in the position where he will be under the law if he gets that gasoline?—A. Yes, there is.

Q. Why don't they put that into effect?—A. We have had that law for a few years, and have been unable to get a prosecution. In one case where we had a signed admission, they dismissed the case for lack of evidence. It of course means only one thing, that these fellows are in touch with the powers that be. We are up against a real problem.

By Mr. Stanley:

Q. The chairman asked you a question in regard to the collection of taxes. Where is the tax collected, inside the state from the refinery?—A. The tax is collected from some 783 individuals or corporations who have licences, and who pay on the receipts. When the gasoline comes to rest, it is taxable.

Now, in the case of gasoline manufactured within the state, for instance; we have a refinery in Michigan. If we ship gasoline to ourselves in Michigan, the tax is payable, at least is computed, at the time it leaves our refinery, and goes out of storage. If we ship to any other of the 783 registered dealers, we ship it without adding tax, and the state looks to that individual to pay the tax. If we ship it to any individual who does not have a licence, then we must collect the tax and be responsible for it.

By Mr. Pettit:

Q. You said a little while ago in one of my questions, that the output of the independent company is not taxed by the state.—A. It is not taxed by the state when it is exported.

Q. What about if it is for consumption in the state?—A. It is taxed presumably by the state in which it is finally consumed. But here is the point. The only check they have are the railroad records. Gasoline comes into the States, and the railroads, according to law, are not called upon to report, then we do not hear anything for practically a month of that carload of gasoline that they have brought into the state. The act says that the railroads are required to report only gasoline, and they report only gasoline. That means on the 20th of the same month, the state officials get a report from the individual companies, and the state officials are presumed to check the railroad report against the individual report to see that all cars have been reported. But in investigating conditions, we found railroads, because of the press of other work, have not got their reports in from 60 to 120 days after the gasoline was delivered, and then the tax collector, when he comes to check the amount reported, has nothing to check it against. By the time the railroad report comes in, he usually says, "we won't bother with it," and they have got into the habit of never checking railroad reports. The railroads are only required to report shipments of gasoline, and we found that there have been any amount of petroleum products, distillates, casing head gasoline, naphtha, kerosene, and other products, come into a plant which the railroads have not bothered to report. And some of our bootlegger friends have got as high as 75 per cent of that sort of stuff. Take furnace oil, they have no furnace oil business, but they mix that with casing head, to jack it up a little, and they have a mixed gasoline that will run and the consumer does not know the damage that is being done to his car until he has to have a new motor a few months later. We found gasoline being sold in Detroit that you would be ashamed to call kerosene; it is simply frightful.

Q. Do those independent companies sell by tank cars or tank wagons?—A. Both; the professional bootlegger, that is one branch of the industry, has no stations of his own. He just peddles his gasoline. He has salesmen out who take orders and deliver what you want when you want it, and deliveries are always made at night.

Q. What check up have the authorities on tank wagons not sold by the independent companies?—A. I think the most honest way of answering that is that there is none whatever. They are too busy with murders and other matters, and they have trouble getting the police force paid, and the industry itself has to do any checking that is done. It is really a most deplorable situation. I do not want to take up your time unduly, but I should like to make a few remarks. I will just try to give you some idea of this. As the bootlegger cuts his price, we have to cut to meet him. In order to maintain his volume he has to go lower. In order to protect ourselves, we have to go lower. We have got down from around 20 cents to $5\frac{3}{10}$, and then we were just trying to maintain price regardless of gallonage that would show some profit in the till, and this year I do not think we are going to be able to do it. This condition is typical over many many states.

By the Chairman:

Q. It has fared hard with the industry.—A. It has put the industry in the position of being the most persecuted industry, I think, that any industry has ever been in.

By Mr. Baker:

Q. Legitimate companies in the industry are being hard hit, now?—A. If something is not done, many will not survive. Take the case of the Shell Company. Last year they lost over $20,000,000 in the first six months. Nobody has said yet what they lost in the last six. No company can stand that, no matter how big its reserves are. It is the most serious problem to-day before the American Petroleum industry. We ourselves have got to stop it.

By Mr. Bothwell:

Q. What are your prices now for 57/65 octane gasoline, do you know?—A. What kind of prices?

Q. Your retail prices.—A. Well, of course, we just sell one grade. Our regular grade is 65 octane, and that sells at 9½ cents ex tax in Detroit.

By Mr. Donnelly:

Q. Without tax?—A. Yes.

By Mr. Bothwell:

Q. What would it be in tank wagons?—A. In tank wagons it would be 2½ cents below that, or 7 cents.

Q. What would it be for tank cars?—A. It would be 6½ cents.

Q. It would be 6½ cents?—A. Yes.

By the Chairman:

Q. That is a wine gallon?—A. Yes; these are all wine gallon figures.

Q. What is the retail price in Detroit, an imperial gallon?—A. It would be one-fifth added to 9½ cents.

Q. Plus tax?—A. Add one-fifth to 9½, plus 3 cents.

By Mr. Bothwell:

Q. For how long have you worked on that margin between tank wagon and retail, or tank car and retail?—A. That is purely local to Detroit.

Q. You gave us the figure of the retail as what?—A. It is 9½ cents.

Q. And the tank car?—A. It is 6½ cents.

Q. Then between the tank car and the retail there is a difference of 3 cents?—A. Yes.

Q. How long has that particular spread been in effect in Detroit?—A. Since about the 12th of March this year.

Q. What was the spread prior to that?—A. The retail price was then 11½, and the tank or market was around 5½ to 6½.

By Mr. Baker:

Q. What would the price be out in the country, as it were, in the state of Michigan. You are speaking only of Detroit city.—A. We have 69 prices in the state, all caused by the local bootlegger. The average price in the state would be about 13 cents. The tank car price would not be the same, about 8½.

By Mr. Bothwell:

Q. What has your spread been between tank car and retail for the last two or three years?—A. It has been——

Q. What would it average?—A. It would average between five and six cents.

Q. Between five and six cents?—A. Yes.

Q. Your company is a subsidiary of the Standard Oil Company, is it?—A. A subsidiary of the Vacuum Oil Company, Incorporated, which is in turn a subsidiary of the Socony Vacuum Corporation.

Q. You are not a subsidiary of the Standard Oil Company?—A. Well, there are many standards. You realize the Standard Oil Company of New York and the Vacuum Oil Company are both component parts of the original Standard Oil Company, which was broken up in 1911.

Q. Do you operate in Canada at all?—A. Yes.

Q. Where do you operate in Canada?—A. We operate from Windsor, as far east as Hamilton.

Q. Do you use your own product from your own refinery, or do you use Canadian?—A. Canadian.

Q. You use Canadian?—A. Yes.

Q. How long have you been using Canadian?—A. Since the tariff went on, I don't know the exact date.

Q. Prior to that new tariff going on, that $2\frac{1}{2}$ cent dump tax, you shipped in your own product, did you?—A. Yes.

Q. And in Canada, what spread have you between your tank car and your retail price?—A. We do not do any tank car business in Canada; we are quite small; we do not have any tank car business at all.

Q. What spread is there between your tank wagon and retail price?—A. I am not sure; I think it is $3\frac{1}{2}$ cents.

By Mr. Pettit:

Q. What was your price for gasoline in Ottawa on the 19th April this year?

Mr. Baker: He does not sell in Ottawa.

The Witness: We do not come any farther east than Hamilton.

By Mr. Bothwell:

Q. You buy from the Imperial Oil?—A. We buy from the Imperial Oil.

Q. And you are here at their instance?—A. No; I was asked by Mr. Ross and the chairman of the committee.

Q. By Mr. Matthews?

The Chairman: Yes. I think now, that that question has been put, I shall explain why I thought it was necessary to have evidence in regard to Michigan prices. A great many references have been made to American prices, and about the prices the consumers are paying. Some days ago I was told of a speech made by a member of this committee; and on making enquiry, I discovered—I am not a lawyer, and I do not know much about procedure—there is no written rule that I know of against a man making a speech while the work of the committee is in progress. I understand in England not only are speeches not made, but nothing is printed. In Canada, it has always been the practice that members of a committee shall not make any comment in public or any public statement while the committee work is going on. It is looked upon as highly improper, and in speaking with a friend, who is, I may say, a member of the Liberal side of the House, I was told by him of a speech that was made by a member of the committee in these terms. These are the words as quoted by the paper, used by the member of the committee:

> Don't think I was on the banking and commerce committee of the Commons for nothing. I know what is going on. I know how the Imperial Oil exploits you through tariffs, eight cents on a gallon of gasoline. But in getting the facts to the public we are up against a subsidized press. All the Imperial Oil has to do is to spend $200,000 or $300,000 on advertising. Then nature takes its course with a sweetened press. If you try to do anything you are held up to ridicule.

Now, having read that reference—the member said in another part that he was in Windsor where he got those figures. I thought it was only fair, in view of the fact that a member, who is a prominent member, and who makes a speech of that character from a public platform, that the committee should be entitled to know what the condition of the gasoline business is in Detroit, or in Michigan. Therefore, I consulted with one or two members of the committee, and I consulted with Mr. Hanson, who is a member of the sub-committee, and I wired Mr. Campbell Saturday morning and advised him, because I thought members of the committee should know all the facts regarding the oil industry, especially when quotations such as these are made on the public platform.

By Mr. Donnelly:

Q. Those prices tha are quoted here in the *National Petroleum News* are reliable? We have them here for Detroit and other cities. Are they reliable, and do you still follow those?—A. I would say they are entirely reliable.

Q. They are entirely reliable?—A. Yes.

Q. Because I notice you speak of Detroit being different from any of the other cities. I just happened to open this book here in September, 1931, and I find in Detroit gasoline was being sold in tank wagon or service stations at 14·8. We find it being sold in Grand Rapids at 14·7 and in Saginaw, 14·9. They are not very much different from any other. I find in Minneapolis on the same day, the price was 15·2, Duluth 15·5, so there is not very much difference.—A. What date is that, Dr. Donnelly?

Q. September 7, 1931. I just happened to open the book at that page.—A. I think that was after or just at the time we were making a supreme effort to rectify prices. Was not that after the very low price of August?

Q. I can take any other day, and there does not seem to be very much difference. Take Minnesota for example. This is all in 1931. Take June, if you like. On June 1st, the price was 14·8 in Detroit, 14·7 in Grand Rapids, a little lower, 14·9, at Saginaw.—A. These prices are including tax.

Q. These include the tax?—A. Yes.

Q. What is the state tax in Minnesota?—A. I believe it is 3 cents. It says at the top of the page.

By Mr. Bothwell:

Q. On August 25th the gasoline prices were restored to normal. Apparently in December there was a considerable drop in prices, and then they were restored to normal. On the 25th of August——A. I think we had——

Q. That was about the month that there was some disorganization in the South.—A. Of course, that statement that they were restored to normal is hardly true. They were restored to normal under present conditions. Normal would be much higher than that.

Q. They were restored to a price that had existed prior to that during July, June, May, April. There was a cut of one cent in April.—A. I would say the normal price was the price which was in existence probably in August, 1930, August and September, 1930. The trouble started late in September in 1930.

Q. Well, on December 3, 1930, the price at Detroit was 13·8 cents.—A. Yes, I think so.

Q. There was not very much disorganization at that time?—A. Well, that is——

Q. According to the reports, following it right through for the year 1931, it says that the prices dropped tremendously on the 20th July to the 24th August, and then came back to normal, according to the report in the Oil Price Handbook of 1931.—A. They did come back in August, and they came back to probably that price. Later in the year they dropped down to 11½ cents.

Q. Yes, 11½ cents. That was what the year closed at.—A. They continued at that price until March 12th this year.

Q What price have they dropped to now?—A. Dropped 2 cents to 9½ cents, now.

By Mr. Donnelly:

Q. The gasoline that you use there in Detroit, is it all manufactured there, or is it brought in?—A. We only do manufacturing in Michigan.

Q. You bring it in by pipe line?—A. We bring the crude in by pipe line.

Q. Suppose gasoline—let us take a hypothetical case—suppose crude oil is quoted at 4 cents, gasoline laid down in Detroit would normally be about half of gasoline in tank cars. In other words, what is the difference between crude oil and gasoline?—A. Our tank car price, in order to make a fair profit, ought to be at least twice the cost of a gallon of crude oil.

Q. If you bought crude oil at one cent, the tank car price for gasoline should be two cents.—A. We could not sell it for that.

Q. I ask you that because——A. That is after it is transported there.

By Mr. Bothwell:

Q. What do you mean by "after it is transported there?"—A. I mean after it was transported to our refinery; we could quote on the basis of the cost of crude oil.

By Mr. Donnelly:

Q. Suppose crude oil cost you one cent a gallon, gasoline should cost two cents.—A. You mean the crude cost is one cent laid down at our plant?

Q. Yes.—A. Yes, but such a condition is impossible.

Q. Then, gasoline should cost two cents. I ask you that because our Department of Customs here for duty purposes has fixed the differential at 3.25. If crude oil costs one cent, gasoline should then cost 4.25. I have decided in my own mind that is absolutely too high a differential.—A. As I remember now, we would probably have to get for tank car gasoline not less than twice the cost of crude laid down, before our distributing cost; to make a profit would mean a price of 2½ times crude.

Q. Your cost of refining crude to-day is much less than it was two or three years ago. You are more up to date, and able to do a much better job than you were five years ago.—A. Yes.

Q. You mean the cost in Detroit before your protection?—A. I am not a refining man, I don't know. I know that due to the perfection of the refining art, costs have gone down.

Q. Is there any gasoline brought into Detroit by pipe line at all?—A. No.

Q. Your freight rates on gasoline and on crude oil are different, are they not? Is it higher for gasoline?—A. I would not want to give that to you without qualifications, but I think these are right: Our freight rate on gasoline from group 3 is 3 7/10 cents per gallon. That was before the surcharge was put on about March 15th, and which will soon be removed. Our crude rates from the same territory to our refinery, which is 18 miles outside of Detroit, as I recall it, are 62½ cents a barrel. That is a barrel of 42 wine gallons.

By Mr. Bothwell:

Q. I understood you to say that your cost of gasoline should be twice the cost of crude. Well I think there must be something wrong with the statement, because at one time crude was selling at 15 cents a barrel, which is less than ½ cent a gallon.—A. I qualified that, Mr. Bothwell, by saying the cost of crude laid down at our refinery. On top of the 15 cents a barrel would be the gathering charge, which is universal at 20 cents a barrel. That would raise the price to 35 cents. On top of that would be freight and purchasing charges. Now, it is true I have given you here a crude oil freight rate of 62½ cents. It does not apply to the 15 cent price, because this 15 cent price only applied on that new flush East Texas field. Everything had to be brought in by tank cars, which would be considerably higher than the pipe line rate.

Q. The rate you are giving us, on this 62½ cents is pipe line.—A. That is the pipe line rate.

Q. You did not give us the pipe rate on gasoline, you gave us freight.—A. I know, but there is no pipe line.

Q. But you do not know what the freight rate is on the crude oil?—A. No; I do not know. It would be somewhere between the pipe line rate and the gasoline rate.

Q. At the present time, you figure the difference between the laid down cost of crude per gallon and the cost of gasoline per gallon as being one cent.—A. No, at least twice the cost of crude laid down.

Q. Why the difference? Supposing crude cost you 2 cents a gallon.—A. Laid down?

Q. Yes.—A. Well, then, our manufacturing and tank car distributing costs would be approximately another 2 cents a gallon.

By Mr. Donnelly:

Q. I am just talking of manufacturing.—A. I don't know how much of that is tank car distributing cost, and how much is manufacturing.

Q. You are talking of the total price of manufacturing and distributing. I am just referring to the fact that when you bring in your crude, without distributing it and selling it in tank car, delivered at your plant, what the differential should be between the two.—A. I do not know exactly; it would be some point close to twice the cost of a gallon of crude.

Q. I do not see why it should. For example, suppose you pay 6 cents a gallon for crude, then you would have to sell it at 12. Why should it double like that? Then, when it costs one cent a gallon, you would sell it for two.—A. Your statement is right. This figure was compiled on the depressed crude prices several months ago. Of course, if the price of crude cost us—

By Mr. Bothwell:

Q. Take the time when you arrived at your figures. What price were you paying for crude laid down?—A. I do not know exactly, probably about $1.50 a barrel.

Q. Probably about $1.50 per barrel? Then you would have to charge $3.00 a barrel for gasoline?—A. Yes.

By Mr. Donnelly:

Q. You say that all stations over there in the United States are selling all kinds of gasoline. If a stranger goes in there, how does he know what kind of gasoline he is getting? Supposing a traveller goes into the state of Michigan, is there any way he can tell what kind of gasoline he is getting? How is a man to know?—A. You can rest assured that a station attendant will try to sell you the most expensive gas there is. You cannot tell, because they are all branded. If you went in and asked for a specific brand, looking at the pump, you may pick the wrong one. You can only tell by the price cards attached to the pump.

Q. And the only way you can be sure, and even then you would not be sure—could a man be sure, even if he paid a big price, that he was getting a good product?—A. No, you cannot tell.

Q. There is no way that the tourist can tell?—A. No, unless he goes to a recognized company, and sticks to it throughout his travels.

By Mr. Bothwell:

Q. Before the United States Tariff Commission, the cost of conversion at the Gulf coast refineries, that is converting the crude oil into gasoline, was 45, 47, 49 cents per barrel of crude. At the California refineries it was 28 cents per barrel of crude. Do you know whether those figures are average or not?—A. I know very little about costs. I probably should have kept out of it in the first place. I do not know, Mr. Bothwell.

By Mr. Donnelly:

Q. This, of course, is a report of the House of Representatives at Washington from which we are quoting?—A. It is probably correct.

The CHAIRMAN: Is that all Mr. Bothwell?

Mr. BOTHWELL: Yes.

A. E. HALVERSON recalled.

Answering Mr. Bothwell's question, at page 379, how we arrive at our base price. On that statement it shows the exchange $10\frac{3}{4}$ per cent, ·645 per gallon; excise tax 3 per cent, ·199 per gallon; sales tax 6 per cent, ·411 per gallon; freight surcharge 7 per cent, ·831 per gallon; emergency freight tariff of 1 cent, per hundredweight—

By Mr. Bothwell:

Q. What is that emergency?—A. It was put on by the railways as an emergency tariff, which will probably be removed later. Emergency freight tariff ·186 per gallon. The items I have just mentioned total 2·172 cents per gallon. Our base price at that time as per that statement, was 7·30, and it includes all those charges I have mentioned. If you deduct those charges which any importer would have to pay, it leaves what we realize at group 3, 5·128 cents per gallon.

Q. What is that?—A. It is 5·128, as compared with the group 3 duty-free price at that time of 6 cents per imperial gallon. In other words, our base price, less all those charges, that we absorb was ·87 cents per gallon cheaper than duty-free gasoline.

Q. That does not answer my question. The point I was getting at was this: you can take those prices in the United States and if you fix your base price then, to work out with those, you can always compare them with the imported prices. I wanted to know how you arrive at the base price. You have not told us yet. You have deducted the things that you mentioned in the first place, that is self evident. How do you fix your figure of 5·128?—A. To go back to my evidence the other day, before the tariff enactment of 1930, our tank wagon prices in the west were based on realizing a slender margin of profit. Our tank car prices at that time were based on meeting duty free competition. It was fixed by duty free competition. We had to meet that competition or lose our connection. However, since that time, on account of the alleged pledge covering tank cars, every time we reduced tank wagon price, we have been forced to reduce our base price correspondingly. Therefore, if you go back to September 1930, our base price plus freight was made to meet duty free competition from the United States, and it had no relation to cost whatsoever. It was too low.

Q. Now, Mr. Halverson, let me draw your attention to this. On page 378 you say, " Imperial Oil base price exclusive of freight, 8, 7, 6, 4, 5 cents, extending from September 1, 1930 to to-day. There has been a difference in exchange and there has been a difference in excise in that time, but that does not explain the difference in your base price, and I want to know how your figures are made up, in order to get the base price that you have given us of 5·128.—A. We had to have a base price somewhere. It does not matter where it was. We made group 3 the unit of computation.

Q. So far as I am concerned, I can take the American base price and deduct and figure as to what you will fix your base price in order to be below the American base price. That is apparently all that you have done. You cannot give us the figures.—A. Well, we would be better off to sell at the group 3, open market tank car price and let the importer pay the charges.

Q. Better off?—A. Yes.

Q. If there is no duty?—A. With duty and dumping not included, we would be better off—

Q. You will have to explain that to me, because your prices certainly do not bear that out.—A. I have tried to explain that. I am willing to submit that statement to any auditor to see if he can find anything wrong with it.

Q. Can you give us any further information as to how your 5·128 is made up?—A. Which one is that?

Q. I want to know what is comprised in that 5·128.

Mr. STANLEY: 7·30 less—

Mr. BOTHWELL: I want to know how that is made up.

The WITNESS: That is simply our competitive price.

Q. In regard to the cost of crude or your manufacturing cost or your blending stock?—A. No, sir; it takes no record of cost, simply because the alleged pledge covering tank cars has forced our tank car price down in the West, to a basis where it is absolutely unprofitable.

Q. So far as you are concerned, in fixing of the base price, you take the American base price and you make a computation in order to arrive at what you think yours should be?—A. I cannot add to what I have said, Mr. Bothwell.

Mr. STANLEY: He does not fix the price.

By Mr. Bothwell:

Q. He has given us a base price of 7·30 which is below the American price, as he calls it.—A. From the standpoint of the consumer and the co-operative, regardless of how it is made up—

Q. I want to know——A. It is laid down cheaper than duty-free gasoline. That is the thing you are probably interested in.

Q. In order to arrive at your base price of 7·30 you just make a computation from the American price prevailing at the time you fix the base price.—A. To go back over my evidence, in September, 1930, our base price was low enough to compete with the duty-free gasoline from group 3.

By Mr. Pettit:

Q. Irrespective of costs?—A. Irrespective of costs. I cannot add to that, Mr. Bothwell. I would like to, if I could.

Q. If you did, it would only be opinion?—A. Yes.

By Mr. Bothwell:

Q. Further, your figures of 8, 7, 6, 5 and 5 and so on, are arrived at by a computation from American prices in order to be able to meet them in the pledge that you gave.—A. It is arrived at on the basis of our base price in September, 1930, before the tariff enactment; and we have maintained that differential between tank wagon and tank cars in the west ever since.

Q. Your base price in September, 1930, was a competitive price.—A. It was too low, absolutely too low.

Q. It was a competitive price?—A. Yes.

Q. That is the way you arrived at it?—A. Yes.

Q. Ever since you arrived at it in some way by taking the American price in order to carry out the pledge?—A. Mr. Bothwell, we made a drastic reduction in our tank wagon prices in the west, and consequently, our tank car prices, which were already too low, came down too far.

Q. As far as you are concerned, your base price bears no relation to the cost of crude and the cost of manufacturing and so on?—A. None whatever. They are too low.

Q. Well, I do not know whether they are too low or not.

The CHAIRMAN: Have you anything else you want to say?

The WITNESS: You mentioned something about Detroit, and about the present price there being normal. I mentioned this in my evidence before, but

I will just deal with it in about 30 seconds. I am told Detroit get their crude oil from group 3. That is their source of supply. And taking freight rate into consideration, Detroit at the present time is realizing 6·2 cents per gallon less than Dallas, Texas, in the heart of the oil fields. Now, if Detroit is normal, then Dallas, Texas, must be away out of line.

By Mr. Bothwell:

Q. I don't know. If you take Regina where you have a refinery, we are paying more for it right there at the refinery than you are in certain other places in Canada. The same situation may hold good as between Dallas and Detroit.—A. As I have explained previously, in regard to the Regina price, there are two phases, on either one of which we are willing to be judged, one is competition with gasoline from the United States, and the other is are we making too big a profit per gallon on our gasoline manufactured in Canada? As far as competition is concerned, I have already covered that in my evidence, and you will have your auditor's report insofar as profit per gallon is concerned.

Q. It has not been covered in evidence except by a statement, without giving any basis practically upon which they can figure as to why they make that profit on gasoline.—A. Let your auditors—

Q. Except you go to the top and work back.—A. Your auditor is now checking into that. Now, as far as importations from the United States are concerned, we compete with a very demoralized market, as the losses of the oil companies there will show. In western Canada to-day, by tank wagon and in tank cars we are selling cheaper than duty free imported gasoline, so there is absoltuely no criticism against us there. And it is significant, that although at Regina they started out to prove that our prices were away out of line with the United States, in their report there is no mention made of it. The only thing that—

Q. They put it up to us, because they were not able to get witnesses.—A. Not on that particular thing. They got all the information they wanted on the comparison with United States prices. On the question, are we making too much of a profit per gallon at Regina, there is this conclusion to be drawn. You are getting an auditor's report covering Sarnia and Halifax. Sarnia receives its crude oil from group 3 by pipe line, Regina by rail. Sarnia has a very large refinery as compared with the Regina refinery. Ontario has a large market, twelve months of the year; Saskatchewan has a relatively small market, six months of the year. Our credit losses in Saskatchewan are much higher than in Ontario. Our stock loss, on account of the volatile product, is higher than in Ontario. Our marketing costs are higher, and in spite of that, our Saskatchewan prices, based on group 3, are in line with Sarnia. Therefore, when you get our Sarnia profit per gallon, you can draw your own conclusions from that report. But, in any event, the profit per gallon in Saskatchewan is less than the Sarnia one.

Q. The result of your statement is this, I take it: so far as the Imperial Oil is concerned, it does not require any dump duty at all?—A. We do, when we have to compete with Pennsylvania product, or competition of that character.

Q. That is your original application in connection with Pennsylvania product, but after it was in effect for a couple of months it was changed.—A. It works back to this, Mr. Bothwell, the statement I made at Regina, and I will confirm it here, that we take no advantage of the duty, if we can possibly help doing so. But we are striving to make a slender margin of profit, and if we can make that slender margin without taking any advantage of the duty, we do not intend to do so.

Q. You have to show me.—A. But there are conditions like Detroit that we cannot possibly meet.

Q. Of course, you say without duty or without dump that you are selling cheaper than you can get it in without the dump, or duty.—A. I was just saying that conditions vary in different parts of Canada. Take, for instance, Detroit about which we heard so much this morning. We cannot compete with that sort of thing. We only take advantage of protection where it is absolutely necessary for us to do it, and in no other instance.

By Mr. Donnelly:

Q. We have heard a lot this morning about prices, and racketeering in the United States having reduced the prices. I presume it has reduced prices all over the United States.—A. Yes, but it would vary.

Q. We had a witness come here and tell us he bought gasoline in the Dutch West Indies for the same price that he could buy it at the Gulf. Is that racketeering scheme existing down in the Dutch West Indies?—A. I would not think so, Dr. Donnelly.

Q. I have a letter here saying that gasoline could be laid down at Montreal from Roumania at six cents a gallon. Where does the racketeering end? Does it exist all over the world, or only in the United States?—A. Whether it is racketeering or something else, you cannot get away from the fact that the oil companies in the States are losing anywhere from one million to forty millions in a year.

Q. That may be true.

Mr. BOTHWELL: I do not know whether that statement is correct or not.

By Mr. Donnelly:

Q. That must exist all over the world except in Canada. Canada is the only place they have kept the prices up for the oil companies. All over the rest of the world the prices have gone down.—A. I would like to add a word to what Mr. Campbell said about tax evasion, Doctor. Mr. Coplan, who was giving evidence the other day, was speaking about getting 64 gravity gasoline —this point is not so material—but I should like to bring it out—I have with me a National Petroleum News Oilgram, and the price in group 3 on 64 gravity, 375 endpoint, is $\frac{1}{8}$ cent less than the U.S. motor specifications for the 57 octane, Doctor. The impression was given the other day that 64 gravity gasoline was a higher priced gasoline than 60 gravity. If you will refer to Oilgram quotations you will see it is $\frac{1}{8}$ cent per gallon less.

By Mr. Donnelly:

Q. Just one other question, and I am through. In all your quotations that you have given with regard to prices of gasoline, in Montana, for example, you invariably quote Helena, Montana. I notice in the Petroleum News if you refer to Butte, Montana, Butte, Montana, is invariably 2 cents and sometimes 3 cents below Helena. Why has Helena always been quoted?—A. If my information is correct, Doctor, Great Falls, Nile City, Helena, Shelby, all have the same prices. I think one exception is Butte, where they had a local price war.

Q. It has existed throughout the whole of the past year?—A. Butte is an exception.

Q. I have not the prices here for Great Falls, but I notice here in the handbook that—— —A. We try to make a fair comparison.

Q. Between Butte and Helena, all through the past year, there existed a difference of as much as 4 cents, sometimes.—A. Butte is the one exception, as far as I can find out, in the price structure. They must be having some kind of a price war there; but in the comparisons I have given, we try to give a fair comparison. To make any other kind of a comparison would simply react against us. Regarding Sherbrooke. Someone some time ago said that the price at Sherbrooke was 16 cents per gallon higher than across the line. In the first place, I could not figure out how protection of about 4 cents a gallon would maintain an arbitrary price level of 16 cents, and in the second place, the figures are these: the retail price at Sherbrooke is 15·30 per wine gallon, and converted to imperial gallon, it is 18·36, the difference in freight from Pennsylvania, ·04; freight surcharge 7 per cent, ·20; sales tax 9 per cent, ·72; exchange 11 per cent, ·79; Vermont price laid down in Canada, 20·11. That is the retail price exclusive of tax, as compared with our retail price exclusive of tax or 24 cents, a difference of 3·89 cents per gallon. But at Sherbrooke we are selling a white gasoline, equal in specifications to that which is sold in Vermont, and we are selling it at 21 cents; so we are out of line less than one cent per gallon. We would be glad to submit those figures to whoever would care to cross-check them.

Q. How long have you been selling that white gasoline?—A. White gasoline has only been at Sherbrooke for a short time; but even before we started selling white gasoline, we were approximately only 3 cents out of line, instead of 16.

Q. Did I understand you to say that what Mr. Coplan said about the 64 gravity, 275 endpoint, was not correct, that it is not as good as 60?—A. I am stating that it can be bought cheaper.

Q. Sixty-four can be bought cheaper than 60?—A. Yes.

Q. When was that? It does not tell me so here in this Petroleum News. It is always higher, practically speaking, here.—A. This is the Oilgram of April 21.

Q. Of this year?—A. Oklahoma price, yes, 64/66 gasoline, 375 endpoint, 5·375 per gallon, 57/65 octane, United States motor gasoline, 5½ cents per gallon. In other words, 64 gasoline is ⅛ of a cent cheaper.

Q. I have the average here for 1931, 64/66 375 endpoint gasoline sold at the gulf coast in tank car lots, 4·97, and the average for the year of United States motor, or the average for 1931 was 4.41; so the United States motor was below the 64/66 gasoline.—A. Those are to-day's figures I gave you.

Q. It apparently is only out of line to-day. I am dealing with the average for the whole of the past year, 64/66 was above this U.S. motor gas.—A. In the west during the past year, we have quoted exactly the same price to jobbers and co-operatives for 64 as we did on the other. We have given no difference in prices.

By Mr. Bothwell:

Q. Just one question. Have you read this report of the U.S. Tariff Commission?—A. No, I have not.

Q. You have not looked over the tables at all?—A. No, sir. Some time ago a great deal of prominence was given to a comparison between refinery prices in Chicago versus Fort William, so it might be interesting in connection with that to compare Fort William prices against Duluth. Duluth, by the way, is only .3 over Minneapolis, $^3/_{10}$ of a cent over Minneapolis, and therefore apparently must be in line with prices elsewhere. But in February when I made up this statement, the tank wagon price in Duluth was 13.60 per wine gallon.

Q. We have that on page 379.—A. I was going into details—which made the laid down price in Fort William 21.98 as against our tank wagon price in Fort William of 19½. In other words, Fort William was 2.48 cents per imperial gallon less than Duluth, and they have plenty of competition in Duluth. If there was any saving to be made by water borne transportation, Duluth would take advantage of it.

Q. In making up this statement, you filed at page 374, you state, "posted tank wagon price, U.S. city, 13.90." Where is that price taken from?—A. That is taken from the National Petroleum News.

Q. At what place?—A. Duluth. It says Fort William versus Duluth. It would be Duluth prices. All figures we have quoted have been taken from the National Petroleum News. Now, you asked Mr. Campbell some questions about tank car margins in Detroit.

Q. Just one question there. You show a difference in freight of 4 cents on that same total.—A. Yes.

Q. That is a difference of 4 cents between where?—A. From group 3. If you eliminated freight entirely, we would be only out of line $1\frac{1}{2}$ cents.

Q. Freight to Fort William from group 3, or freight to Duluth. What is the difference of 4 cents?—A. It is freight from group 3 to Duluth, as compared with freight to Fort William, I might say the prices we gave you the other day—to-day's prices would show in our favour more than those prices did, because they raised their tank wagon prices throughout Minnesota and North Dakota and adjoining states one cent per wine gallon, which would mean 1.2 per imperial gallon, and then adding in the extra excise and sales tax, it is another .27 cents, so our prices to-day are .47 cents per gallon better than they were at the time I was here before.

Q. Does the Imperial Oil intend to absorb the increased sales tax?—A. I cannot say.

Q. All you can say is since the 6th of April you have not altered your prices by reason of the sales tax?—A. Yes, that is correct.

My Mr. Stanley:

Q. Are you suggesting the raising of the tax on gasoline?—A. I thought it would be interesting to know, in view of the discussion that has taken place here, in Minneapolis for instance, the tank car price is five cents below the retail, or two cents below the dealer's price. The tank car price in Detroit is practically the same as the dealer's price. The tank car at Saginaw for instance, is only 4.4 cents under the retailer's price, whereas down in eastern Canada our tank car price is from $6\frac{1}{2}$ to $7\frac{1}{2}$ cents below the retailer's price. In other words, those jobbers in eastern Canada are getting a better spread on their retail than they are concurrently in the United States.

Q. Because they are not entitled to discount as they are in North Dakota. —A. That is right.

Q. They are not, then, in Michigan?—A. That is correct.

Q. Is that so?—A. I did not hear your question.

Q. Are the tank car prices entitled to any discount on what you are quoting in Michigan?—A. The tank car prices in North Dakota are about $5\frac{1}{2}$ cents under the retail; whereas our spread in western Canada is much greater than that, because our tank car price is too low. When we sell in tank cars, the only saving we make is one of marketing expenses, and on a sound basis it should be—the tank car car prices should not be more than 3 cents below the tank wagon price.

By Mr. Bothwell:

Q. You have been talking about your tank wagon price being lower. At Fort William the dealer retail price is 1·02 cents above Duluth, Winnipeg 1·42 above Minneapolis, Brandon 2·69 over Grand Forks—A. I just made up those figures the other day.

Q. That is correct, is it not?—A. I cannot say.

Q. I am taking it from your own figures at page 375 of the evidence.—A. In my previous evidence I stated our retail prices were slightly out of line in the west, due to the fact that in the adjoining states, on account of tax evasion and the demoralized conditions, retailed prices had been reduced to the same level as tank wagons, and therefore we were slightly out of line. But in this connection, here are some figures that I have made up since our last evidence.

Q. Before you come to that, we had evidence this morning that they had been for years out of line. There is a discount given to the dealer.—A. Oh, yes, the dealer gets on an average of 2½ cents under the markets.

By the Chairman:

Q. You are speaking of the United States?—A. Of the United States.

By Mr. Bothwell:

Q. So there is actually a cent difference, or there is a difference between the tank wagon and the retail price?—A. No, in North Dakota and Minnesota,—the comparisons I gave you were with North Dakota and Minnesota.

By Mr. Donnelly:

Q. Do you maintain those dealers do not get discount?—A. Yes. They get 2½ cents.

Q. They are still getting a difference in the spread of 2½ cents.

By Mr. Bothwell:

Q. The tank wagon prices in the Oilgram here should be 2½ cents lower than they are?—A. No sir, for this reason. When I made my comparison the other day, I was dealing with the farmers. The farmers are the people whom we are concerned about in the west, and so is everyone else, and the farmers in the west are purchasing their gasoline and kerosene from us at tank wagon prices, whereas in North Dakota they purchase on retail prices.

By Mr. Donnelly:

Q. Do you know that farmers do not get a discount in the same way on tank wagon price in the United States?—A. I am sure they do not get a discount; they pay the posted tank wagon prices. If you check into that you will find it correct. The posted retail price in Minneapolis to-day is 14·30, or laid down in Winnipeg—

Q. Does that include state tax?—A. No, exclusive of tax, in every instance, 14·30 retail price, Minneapolis, per wine gallon. Without going into those figures with which you are so familiar, it makes a laid down price in Winnipeg of 22·94 as against our price in Winnipeg of 23 cents. In other words, we are out of line ·06 in retail.

By Mr. Bothwell:

Q. Didn't your price go up a cent in Winnipeg?—A. Yes; that would be 24.

By Mr. Donnelly:

Q. It was 23 the other day.—A. These are the figures that were made up for me. Just one moment, it would be 24, yes, 1·06 of a difference. I am glad you called my attention to that.

Witness retired.

Committee adjourned at 1 o'clock.

APPENDIX

FILED BY McCOLL-FRONTENAC OIL CO. LTD.

Gasoline and Crude Oil Prices

Authority: "National Petroleum News Price Handbooks."

Mid-Continent 36° Crude Oil Prairie Oil & Gas Co. Postings		Service Station Price Gasoline (Tax Omitted)					Crude Oil Increase or *Decrease*	Service Station Gasoline Increase or *Decrease*	
			Montreal		Toronto			Montreal	Toronto
			Blue	White	Blue	White			
Year and Month	$ per bbl.	Year and Month	cents per gal.	cents per gal.	cents per gal.	cents per gal.	$ per bbl.	cents per gal.	cents per gal.
1926		1926							
Jan. 1	1·79	Jan. 1		27·0		27·0			
Feb. 1	2·04	Feb. 17		28·0		28·0	0·25	1·0	1·0
		May 5		29·0		29·0		1·0	1·0
May 15	2·29	May 28		30·0		30·0	0·25	2·0	1·0
		Oct. 25		28·0		28·0		*2·0*	*2·0*
Nov. 17	1·90						*0·39*		
1927		1927							
Jan. 1	1·90	Jan. 1		28·0		28·0			
Feb. 22	1·67	Mar. 1		27·0		27·0	*0·23*	*1·0*	*1·0*
Mar. 5	1·47						*0·20*		
Mar. 12	1·28	April 18		26·7		26·0	*0·19*	*1·0*	*1·0*
		May 2		25·0		25·0		*1·0*	*1·0*
		May 30		24·0		23·0		*1·0*	*2·0*
1928		1928							
Jan. 1	1·28	Jan. 1		24·0		23·0			
July 26	1·36	Aug. 7		25·0		24·0	0·08	1·0	1·0
1929		1929							
Jan. 1	1·36	Jan. 1		25·0		24·0			
Jan. 25	1·20	Jan. 28		24·0		23·0	*0·16*	*1·0*	*1·0*
		Mar. 14		23·0				*1·0*	
May 20	1·45	May 22		25·0		24·0	0·25	2·0	1·0
		Oct. 1		24·0		23·0		*1·0*	*1·0*
1930		1930							
Jan. 1	1·45	Jan. 1		24·0		23·0			
Feb. 15	1·20						*0·25*		
April 10	1·29						0·09		
Oct. 27	0·95	Oct. 29		23·0		22·0	*0·34*	*1·0*	*1·0*
*1931		1931							
Jan. 1	0·95	Jan. 1		23·0		22·0			
Jan. 16	0·71						*0·24*		
Mar. 5	0·59	Mar. 12		20·5		19·5	*0·12*	*2·5*	*2·5*
April 21	0·49		20·5		19·5		*0·10*		
June 1	0·33		20·5		19·5		*0·16*		
July 9	0·18	July 23	20·0		19·0		*0·15*	*0·5*	*0·5*
July 24	0·38	July 28	20·5		19·5		0·20	0·5	0·5
Aug. 22	0·62	Aug. 25	22·0		21·0		0·24	1·5	1·5
Nov. 2	0·77	Oct. 19	21·0				0·15	*1·0*	
1932		1932							
Jan. 1	0·77	Jan. 1	21·0		21·0				
April 11	0·92	Mar. 11	21·0	18·5	21·0	18·5	0·15	*2·5*	*2·5*
	Period January 1st, 1926, to April 1st, 1932						*0·87*	*8·5*	*8·5*

*Prairie discontinued postings December 31st, 1930.
From that date on, postings from Stanoland.

NOTE.—If 71 octane lead tetraethyl blue gasoline is considered instead of 62 octane white gasoline, the service station decrease, both in Montreal and Toronto, amounts to 6 cents per gallon: that is, for a decline of 87 cents per barrel in the posted price of crude oil the service station price for a high grade of gasoline is 6 cents below the former price for an ordinary grade of gasoline.

FILED BY SHELL OIL COMPANY OF CANADA LIMITED, YEAR 1931

IMPORTS

COST PER IMPERIAL GALLON LAID DOWN MONTREAL EX CURACAO

—	Cost f.o.b. Curacao per Wine Gallon	Cost f.o.b. Curacao per Imp. Gallon	Freight	Duty	Sales Tax	Excise Tax	Exchange	Handling Wharfage etc.	Total
	cts.	cts.	cts.	cts.	cts.	cts.	cts.	cts.	cts.
April	5·25	5·355	0·921	2·5	0·085	....	....	0·25	9·111
July	3·0625	3·675	0·771	2·5	0·247	0·061	....	0·25	7·494
November	4·0	4·8	0·771	2·5	0·312	0·078	0·0517	0·25	8·763

—	Cost f.o.b. Chicago per Wine Gallon	Cost f.o.b. Chicago per Imp. Gallon	Excluding Surtax Freight	Duty	Sales Tax	Excise Tax	Exchange	Handling, Wharfage, Freight, etc.	Total
	cts.	cts.	cts.	cts.	cts.	cts.	cts.	cts.	cts.
April	6·805	8·166	2·92	2·5	0·107	....	....	....	13·69
July ½ month	6·185	7·422	2·92	2·5	0·397	0·099	....	....	13·408
July ½ month	5·828	6·994	2·92	2·5	0·380	0·095	....	....	12·889
November	Cost ex Montreal 8·763 cts. via Tanker......				....	....	....	0·95	9·713

PRICES TANK CAR SALES

—	April	July	November
	cents	cents	cents
Toronto	12·03*	....	13·83*
Montreal	....	12·91*	14·16*
Ottawa	....	....	....

PRICES TANK WAGON SALES

—	April	July	November
	cents	cents	cents
Toronto	16·0	16·0	16·0
Montreal	17·0	17·0	17·5
Ottawa	17·0	17·0	18·5

*The prices shown represent the weighted average of all tank cars sales of Shell gasoline including "spot" sales and sales made to jobbers on contracts.

TANK WAGON PRICES SHELL GASOLINE AS AT MARCH 31, 1932

	cents
Montreal	17½
Quebec	20½
Three Rivers	20½
Sherbrooke	19½
Ottawa	18½
Kingston	19½
Belleville	19½
Toronto	17½
Hamilton	17½
London	17½
Orangeville	17½
Port Hope	18½
St. Catharines	17½
Owen Sound	18½

(a) Premium grade (Super Shell Ethyl) is sold in most cases at three cents (3c.) per Imperial gallon above price of Shell.

(b) Service Station prices are in most cases three and one-half cents (3½c.) per Imperial gallon above the respective Tank Wagon price.

FILED BY IMPERIAL OIL LTD.

LIST OF REPRESENTATIVE TANK CARS CHARGED OUT FROM TORONTO DIVISION AT 60° F.

IMPERIAL GALLONS

Car No. and date of shipment	Shell capacity gals.	Outage		Net gallons delivered	Observed temperature	Temperature adjustment		Gallons charged at 60° F.	A.P.I. gravity range	Temperature correction factors
		Inches	Gals.			Gals. added	Gals. deducted			
IOX 5520, May 18th, 1931	8333	level	level	8333	56°	20	....	8353	51° to 64°	·0024
CSGX 1931, July 3rd, 1931	5267	level	level	5267	82°	....	70	5197	"	·0133
BMMX 1651, July 20th, 1931	6775	level	level	6775	72°	....	49	6726	"	·0073
BMMX 1618, August 10th 1931	6763	level	level	6763	70°	....	41	6722	"	·0061
IOX 7080, November 20th, 1931	8474	3"	83	8391	42°	91	....	8482	"	·0109
IOX 4248, January 16th, 1932	5274	½"	5	5269	36°	76	....	5345	"	·0145
IOX 4248, March 16th 1932	5274	½"	5	5269	32°	89	....	5358	"	·0169

Temperature correction factors supplied in National Standard Petroleum Oil Tables Bureau of Standards Circular No. 154.

TEMPERATURE CORRECTION FACTORS

From 39° Below Zero to 90° Above Zero

Below Zero

A.P.I. Gravity	39	38	37	36	35	34	33	32	31	30
Up to 34·9	1·0400	1·0396	1·0392	1·0388	1·0384	1·0380	1·0376	1·0372	1·0368	1·0364
35 " 50·9	1·0490	1·0485	1·0480	1·0475	1·0470	1·0465	1·0460	1·0455	1·0450	1·0445
51 " 63·9	1·0595	1·0589	1·0583	1·0577	1·0571	1·0565	1·0559	1·0553	1·0547	1·0541
64 " 78·9	1·0690	1·0683	1·0676	1·0669	1·0662	1·0655	1·0648	1·0641	1·0634	1·0627

Below Zero

A.P.I. Gravity	29	28	27	26	25	24	23	22	21	20
Up to 34·9	1·0360	1·0356	1·0352	1·0348	1·0344	1·0340	1·0336	1·0331	1·0327	1·0323
35 " 50·9	1·0440	1·0435	1·0430	1·0425	1·0420	1·0415	1·0410	1·0406	1·0401	1·0396
51 " 63·9	1·0535	1·0529	1·0523	1·0517	1·0511	1·0505	1·0499	1·0493	1·0487	1·0481
64 " 78·9	1·0620	1·0613	1·0606	1·0599	1·0592	1·0585	1·0578	1·0572	1·0565	1·0558

Below Zero

A.P.I. Gravity	19	18	17	16	15	14	13	12	11	10
Up to 34·9	1·0319	1·0315	1·0311	1·0307	1·0303	1·0299	1·0295	1·0290	1·0286	1·0282
35 to 50·9	1·0391	1·0386	1·0381	1·0376	1·0371	1·0366	1·0361	1·0356	1·0351	1·0346
51 " 63·9	1·0475	1·0469	1·0463	1·0457	1·0451	1·0445	1·0439	1·0433	1·0427	1·0421
64 " 78·9	1·0551	1·0544	1·0537	1·0530	1·0523	1·0516	1·0509	1·0502	1·0495	1·0488

Below Zero

A.P.I. Gravity	9	8	7	6	5	4	3	2	1	Zero
Up to 34·9	1·0278	1·0274	1·0270	1·0266	1·0262	1·0258	1·0254	1·0250	1·0246	1·0242
35 " 50·9	1·0341	1·0336	1·0331	1·0326	1·0321	1·0316	1·0311	1·0307	1·0302	1·0297
51 " 63·9	1·0415	1·0409	1·0403	1·0397	1·0391	1·0385	1·0379	1·0373	1·0367	1·0361
64 " 78·9	1·0481	1·0474	1·0468	1·0461	1·0454	1·0447	1·0440	1·0433	1·0426	1·0419

Above Zero

A.P.I. Gravity	1	2	3	4	5	6	7	8	9	10
Up to 34·9	1·0238	1·0234	1·0230	1·0226	1·0222	1·0218	1·0214	1·0210	1·0206	1·0202
35 " 50·9	1·0292	1·0287	1·0283	1·0278	1·0273	1·0268	1·0263	1·0258	1·0253	1·0248
51 " 63·9	1·0355	1·0349	1·0343	1·0337	1·0331	1·0325	1·0319	1·0313	1·0307	1·0301
64 " 78·9	1·0412	1·0405	1·0398	1·0391	1·0384	1·0377	1·0370	1·0364	1·0357	1·0350

Above Zero

A.P.I. Gravity	11	12	13	14	15	16	17	18	19	20
Up to 34·9	1·0198	1·0194	1·0189	1·0185	1·0181	1·0177	1·0173	1·0169	1·0165	1·0161
35 " 50·9	1·0243	1·0238	1·0233	1·0228	1·0223	1·0218	1·0213	1·0208	1·0203	1·0198
51 " 63·9	1·0295	1·0289	1·0283	1·0277	1·0271	1·0265	1·0259	1·0253	1·0247	1·0241
64 " 78·9	1·0343	1·0336	1·0329	1·0322	1·0315	1·0308	1·0301	1·0294	1·0287	1·0280

Above Zero

A.P.I. Gravity	21	22	23	24	25	26	27	28	29	30
Up to 34·9	1·0157	1·0153	1·0148	1·0144	1·0140	1·0136	1·0132	1·0128	1·0124	1·0120
35 " 50·9	1·0193	1·0188	1·0184	1·0179	1·0174	1·0169	1·0164	1·0159	1·0154	1·0149
51 " 63·9	1·0235	1·0229	1·0223	1·0217	1·0211	1·0205	1·0199	1·0193	1·0187	1·0181
64 " 78·9	1·0273	1·0266	1·0260	1·0253	1·0246	1·0239	1·0232	1·0225	1·0218	1·0211

TEMPERATURE CORRECTION FACTORS—*Concluded*

Above Zero

A.P.I. Gravity	31	32	33	34	35	36	37	38	39	40
Up to 34·9........	1·0116	1·0112	1·0108	1·0104	1·0100	1·0096	1·0092	1·0088	1·0084	1·0080
35 " 50·9........	1·0144	1·0139	1·0134	1·0129	1·0124	1·0119	1·0114	1·0109	1·0104	1·0099
51 " 63·9........	1·0175	1·0169	1·0163	1·0157	1·0151	1·0145	1·0139	1·0133	1·0127	1·0121
64 " 78·9........	1·0204	1·0197	1·0190	1·0183	1·0176	1·0169	1·0162	1·0155	1·0148	1·0141

Above Zero

A.P.I. Gravity	41	42	43	44	45	46	47	48	49	50
Up to 34·9........	1·0076	1·0072	1·0068	1·0064	1·0060	1·0056	1·0052	1·0048	1·0044	1·0040
35 " 50·9........	1·0094	1·0089	1·0084	1·0079	1·0074	1·0069	1·0064	1·0059	1·0054	1·0049
51 " 63·9........	1·0115	1·0109	1·0103	1·0097	1·0091	1·0085	1·0079	1·0072	1·0066	1·0060
64 " 78·9........	1·0134	1·0127	1·0120	1·0113	1·0106	1·0099	1·0092	1·0084	1·0077	1·0070

Above Zero

A.P.I. Gravity	51	52	53	54	55	56	57	58	59	60
Up to 34·9........	1·0036	1·0032	1·0028	1·0024	1·0020	1·0016	1·0012	1·0008	1·0004	1·0000
35 " 50·9........	1·0044	1·0039	1·0035	1·0030	1·0025	1·0020	1·0015	1·0010	1·0005	1·0000
51 " 63·9........	1·0054	1·0048	1·0042	1·0036	1·0030	1·0024	1·0018	1·0012	1·0006	1·0000
64 " 78·9........	1·0063	1·0056	1·0049	1·0042	1·0035	1·0028	1·0021	1·0014	1·0007	1·0000

Above Zero

A.P.I. Gravity	61	62	63	64	65	66	67	68	69	70
Up to 34·9........	·9996	·9992	·9988	·9984	·9980	·9976	·9972	·9968	·9964	·9960
35 " 50·9........	·9995	·9990	·9985	·9980	·9975	·9970	·9965	·9961	·9956	·9951
51 " 63·9........	·9994	·9988	·9982	·9976	·9970	·9964	·9957	·9951	·9945	·9939
64 " 78·9........	·9993	·9986	·9979	·9972	·9965	·9958	·9951	·9943	·9936	·9929

Above Zero

A.P.I. Gravity	71	72	73	74	75	76	77	78	79	80
Up to 34·9........	·9956	·9952	·9948	·9944	·9940	·9936	·9932	·9929	·9925	·9921
35 " 50·9........	·9946	·9941	·9935	·9930	·9925	·9920	·9915	·9911	·9906	·9901
51 " 63·9........	·9933	·9927	·9921	·9915	·9909	·9903	·9897	·9891	·9885	·9879
64 " 78·9........	·9922	·9915	·9908	·9901	·9894	·9887	·9880	·9872	·9865	·9858

Above Zero

A.P.I. Gravity	81	82	83	84	85	86	87	88	89	90
Up to 34·9........	·9917	·9913	·9909	·9905	·9901	·9897	·9893	·9899	·9885	·9881
35 " 50·9........	·9896	·9891	·9886	·9881	·9876	·9871	·9866	·9861	·9856	·9851
51 " 63·9........	·9873	·9867	·9860	·9854	·9848	·9842	·9836	·9830	·9824	·9818
64 " 78·9........	·9851	·9844	·9837	·9830	·9823	·9816	·9809	·9802	·9795	·9788

NOTE.—Coefficient of expansion at 60° F.
A.P.I. Gravity Up to 34·9 = ·0004
35 " 50·9 = ·0005
51 " 63·9 = ·0006
64 " 78·9 = ·0007

SESSION 1932

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 16

TUESDAY, MAY 3, 1932

Reference.—Price of Gasoline

WITNESS:

Mr. O. A. Matthews, Member of Geo. A. Touche & Company, Chartered Accountants.

Auditors Report

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1932

MINUTES OF PROCEEDINGS

House of Commons,

Tuesday, May 3, 1932.

(For full minutes see printed minutes of this date in No. 17, Minutes of Proceedings and Evidence.)

EXTRACTED MINUTE

George A. Touche & Company, the auditors appointed by the committee, presented their report by Mr. O. A. Matthews a member of the firm.

Mr. Matthews being sworn read the auditors' report giving verbal explanations.

Consideration of the report was deferred till the next meeting.

The committee adjourned till Wednesday, May 4th, at 3.30 p.m.

A. A. FRASER,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

TUESDAY, May 3, 1932.

The Select Standing Committee on Banking and Commerce met at 10.30 a.m., Mr. Matthews, presiding.

The CHAIRMAN: Gentlemen: You will recall when the Committee was organized early in March it became apparent that we would need the assistance of auditors to examine the books of the oil companies while the work of examining witnesses here was carried on. The object was to determine the cost, selling price and profit in gasoline. The auditors are now ready to report. You will also recall that we employed the firm of George A. Touche & Co.

I would like to say that in securing auditors I took the position, on behalf of the Committee, first, that any auditors engaged should be competent, experienced and reliable; and, second, that they should have no connection as auditors, or in any other capacity, with the oil industry. With these conditions before us we engaged the firm of George A. Touche & Company, Toronto, Montreal, Winnipeg and Vancouver, and New York and London. The representative of Touche & Company who has started on this investigation is Mr. O. A. Matthews who, I may say, I met for the first time when he appeared before the sub-committee for instructions, in March.

OVERTON A. MATTHEWS, sworn.

The CHAIRMAN: This witness is in a different position from the others. He will make a statement to the Committee as our auditor, working for us in this matter, and I am going to ask this of the Committee, that any questions any member may wish to ask be held until Mr. Matthews makes his statement.

Mr. Matthews, will you kindly proceed and tell the Committee what you have done and what conclusions, if any, you have come to.

The WITNESS: Mr. Chairman and members of the Committee, to go back to the beginning of this thing, you will recall that our work for you started on the securing of extraneous information on the McColl-Frontenac. We observed as the work progressed, that we were securing information of little value to the Committee because, as I say, of the extraneous nature of the work we were doing. In other words, we felt we were working on the outside of the circuit. Accordingly, we came down to Ottawa on the 21st of March and met a small sub-committee at which, I believe, the Chairman, Mr. Donnelly and Mr. Hanson were present, and explained the situation, that we believed for the solution to the problem of whether or not gasoline prices to the consumer were too high we would have to go to the source to find it. Accordingly, we suggested to you that we discontinue work we considered to be of no value to you, or at least of little value, and apply our work to the Imperial Oil in getting at the costs of their production of gasoline in relation to their selling prices and net profits. Accordingly we started on a specific investigation in the Sarnia and Halifax refineries.

At that point perhaps I might just refer to a memorandum I have here.

The Minutes of the Select Standing Committee on Banking and Commerce dated 8th March, 1932, shows the following reference:—

> That in the opinion of this House the price of gasoline to the Canadian consumer has for some time past been too high and that this matter should be referred to the Select Standing Committee on Banking and Commerce to investigate and report.

Under date of the 22nd March, 1932, we were instructed to investigate the accounts of Imperial Oil Limited under authority of the resolution of the Banking and Commerce Committee, which provided as follows:—

> Your Sub-Committee duly convened this day in conference with the Committee Auditors and Mr. McCloskey of Imperial Oil Limited begs to report that the said auditors be instructed as follows, namely:—
>
> 1. That the accounts of Imperial Oil Limited be taken for the purpose of establishing the fundamental facts required by the Committee.
> 2. That a basis of establishing the ascertainment of costs be mutually agreed upon between the auditors and the officers of Imperial Oil Limited.

That does not mean, by the way, that we accepted the Imperial Oil basis.

> 3. That for the purposes of the two preceding paragraphs, the investigation be specifically applied against—
>
> (*a*) The Sarnia and Halifax refineries as regards the elements entering into production costs as a whole and as applicable to proportionate distribution of these total costs against gasoline and other commodities refined from crude.

I might say the reference to other commodities is simply to the residuum when you have finished with the gasoline work.

> (*b*) The relative wholesale price of gasoline and other commodities refined from crude in relation to costs of production at the Sarnia and Halifax refineries.
>
> (*c*) The elements embodied in the selling, distribution and administration expenses, added to the cost of production, in relation to selling prices for Imperial Oil Limited, as a whole and as specifically applied in the following marketing divisions—
>
> (*d*) That such marketing divisions may be designated by your subcommittee.

In the original instruction to us;—"that such marketing divisions may be designated by your sub-committee,"—that was not done officially; but we applied the refinery districts to the marketing districts. That is to say, we equalized them. I think you will recall that in the evidence of some officer of the Imperial Oil they indicated that the shipments of gasoline from their refinery, for instance, their Sarnia Refinery, to what they may term their Sarnia marketing district, that there were various interchanges back and forward between other marketing districts. In order to just clear your mind of any complication in that regard, it might be simply expressed that we took the shipments that were made from the Sarnia Refinery that extended beyond the marketing area of Sarnia, and moved them back theoretically into the Sarnia Refinery district. Gasoline that was shipped from outside refineries in the Sarnia marketing district, we moved back to the refinery district to which they applied, in order that we would be able to prepare for you, in accordance with your instructions, a statement showing Sarnia and Halifax refineries in their ultimate operation.

4. That simultaneously with this investigation by the auditors into the aforementioned cost and selling factors of Imperial Oil Limited, they secure from the British American Oil Co., Limited, and from the McColl-Frontenac Oil Co., Limited, statements in such form as will render practicable a comparison of the relative costs and selling prices of the three corporations, thus offering means of disclosing any major variations without entailing the additional expense of investigating the smaller oil companies operating in Canada.

Our findings are summarized as follows:—

An examination was made into the general principles underlying the original of Exhibit No. 9 of Committee Minute No. 3 dated 17th March, 1932, showing a net profit of 1·01 cents per gallon of gasoline sold by Imperial Oil Limited as a whole in Canada in the year 1930, by a series of tests into the costs and selling prices of gasoline produced at the Sarnia and Halifax Refineries. As a result of our investigation, we prepared a Summary of Operations expressed in cents per Imperial gallon of gasoline for the fiscal year ended 31st December, 1930, embodying the Sarnia and Halifax Refineries, as specifically tested by us, and also for purposes of comparison the figures shown by the corporate books of the Company covering all of its refineries in Canada.

The aforementioned Summary of Operation in respect of gasoline of Imperial Oil Limited for the fiscal year 1930 is recapitulated as follows:—

—	In cents per Imperial Gallon				
	Refining costs	Marketing costs	Total costs	Average Selling price	Average Net profit
Retail Gasoline—					
Sarnia	11·27	7·02	18·29	20·22	1·93
Halifax	13·94	5·84	19·78	21·47	1·69
All refineries	13·75	7·15	20·90	22·56	1·66
Wholesale Gasoline—					
Sarnia	10·18	2·89	13·07	13·12	0·05
Halifax	13·02	1·33	14·35	14·60	0·25
All refineries	12·67	2·42	15·09	15·05	0·04 —Loss
Total Gasoline—					
Sarnia	10·81	5·27	16·08	17·22	1·14
Halifax	13·76	4·93	18·69	20·09	1·40
All refineries	13·34	5·34	18·68	19·69	1·01

Any required details of the Refinery Costs, Marketing Costs and Average Selling Price of gasoline supporting the Summary of Operations of Imperial Oil Limited for the fiscal year 1930 were given to the Committee in our evidence.

The scope of our work at the Sarnia and Halifax refineries embodied tests of details to a point sufficient to establish the soundness of the basic accounting principles employed during 1930 by Imperial Oil Limited and which tests may be briefly summarized as covering the ascertainment of the following factors, the approach to the gasoline situation took eight steps before we arrived at the results. I may explain it in this way: If I were to ask you for the corner stone of your house, to get the relationship of gasoline to the petroleum industry, it is the corner stone, it is the last thing that you can secure by way of costs and profits; it has almost to be worked out from the roof to the basement—

(a) Total costs of all products.
(b) Division of total costs of all products between refinery and marketing operations.
(c) Division of refinery and marketing costs between gasoline and other products.

(*d*) Division of gasoline costs as between retail and wholesale trade.

(*e*) Average selling price of all gasoline.

(*f*) Division of average selling price of all gasoline between retail and wholesale trade.

(*g*) Average net profit on all gasoline.

(*h*) Division of average net profit between retail and wholesale trade.

Under each of those main sections our report will follow.

In explanation of the main accounting principles which were found from our tests to be employed by Imperial Oil Limited in determining their net profit per gallon of gasoline sold in 1930, the following outline in submitted:

TOTAL COSTS OF ALL PRODUCTS

The details comprising the total costs of all products are shown in Exhibit No. 9 of Committee Minute No. 3. Of particular concern to us in the examination of total costs were such major factors as,—

(*a*) Affiliated company transactions—involving trade prices of crude and other materials, transportation, royalties and interest charges—of Imperial Oil Limited with Standard Oil Company of New Jersey and subsidiaries, the International Petroleum Company, Limited and subsidiaries operating in South America, the Royalite Oil Company, Limited, and subsidiaries operating in Western Canada, and affiliated companies engaged in the transportation of products by pipe lines, by coastwise and inland lake tankers and by rail tank cars. The term "affiliated companies" in this report embodies,—

1. Companies directly or indirectly controlled through capital stock ownership by Imperial Oil Limited or its subsidiaries.
2. Departments of Imperial Oil Limited operating independently of the regular refinery and merchandizing management.
3. Companies directly or indirectly controlling Imperial Oil Limited or its subsidiaries through capital stock ownership.

The term "non-affiliated companies" embodies all companies not classified in the previous paragraph relating to "affiliations."

I think "affiliations" the most important of all. In the United States our firm there have had some experience in that connection.

(*b*) Administrative Charges originating at Executive Headquarters but costed against refinery and marketing operations.

What we mean there, Head Office in Toronto could simply bill against these refineries any charges they choose. We investigated those.

(*c*) Contingency reserve charges included in costs applicable to Accounts Receivable.

There was a million and a half dollars included in their accounts for contingency reserve. We did not know what that was. We went into it.

(*d*) Inclusion of Additions and Betterments to plant and equipment in the accounts designated as repair costs.

This Company has a tremendous amount of money involved in repair charges. We wanted to know if there were any capitalizable items in those repairs.

(*e*) Fire insurance rates, used in the operation of the Insurance Fund of the Company.

(*f*) Interest charges on any funded debt or advances payable or the equivalent in the form of rentals, for the operating use of the refinery and marketing properties.

(*g*) Depreciation policy and rates.

They could have written off their service stations in one year in the 1930 costs for all we knew.

(*h*) Price basis of inventories at beginning and end of fiscal year 1930.

By that we mean they could have been basing their inventories on cost at the beginning of the year and on some other basis at the end of the year, and that would make a tremendous difference in the result. I am speaking of basis now.

(*i*) Effect on refinery and marketing profits in Canada on accounts maintained in the private books of the Company.

In view of the fact that we have had no connection with oil companies in Canada, I suppose we represented the average layman on the street. We could not understand the difference between the figures the Imperial Oil reported for refining and operating converted to cents per gallon and the amounts reported to their shareholders, and we required detail on that reconciliation to the last degree.

Our findings in the matter of total costs were as follows:—

(*a*) Crude oil purchases in the mid-continent field of U.S.A. were made from both affiliated and non-affiliated companies on the basis of posted competitive well prices plus buying commission at fixed rates plus gathering charges and trunk pipe line charges on I.C.C. ratings whether transported by Imperial Oil Limited affiliations or outside companies.

(*b*) Crude oil purchases in the South American field from the International Petroleum Group, the West India Oil Company and non-affiliated companies were made on the basis of a competitive price structure, f.o.b. South American seaboard points, computed on the mid-continent posted well prices, according to specific gravities, and transportation differentials to the Gulf ports of the United States.

The crude oil production of the International Petroleum Group in South America sold to Imperial Oil Limited aggregated 20 per cent of the total, the balance of 80 per cent being disposed of in world trading.

Whilst the Imperial Oil control it, International Petroleum has grown to such proportions that it is a world trader of immense proportion. In addition to the production of crude by their affiliated companies in South America they have extensive refining operations.

(c) Crude oil purchases in the Turner Valley field from both the Royalite Oil Group and non-affiliated companies were made on the basis of the content value of the productions in competition with crude oil from the Montana and Mid-continent districts plus laying down charges to the western refineries.

(*d*) Casinghead gasoline was purchased from both affiliated and non-affiliated companies at competitive prices, whilst compounding materials, grease ingredients, candle wicking, etc., were purchased in the main from non-affiliated companies.

Up to this point we have dealt with the relationship of affiliation and its possible effect upon the cost of crude oil to the Imperial Oil Limited in Canada.

(*e*) Transportation charges made by affiliations of Imperial Oil Limited owning and operating pipe lines in the United States were based on Interstate Commerce Commission rates and charges for coastwise and inland lake tankers and rail tankers, were based upon competitive rate structures of non-affiliated transportation companies.

We got that through our New York office independently.

Transportation charges, including those originating on pipe lines, as made by the International Petroleum group are embodied in the f.o.b. prices at South American seaboard points and automatically take into account the competitive transportation differentials to the Gulf ports of the United States.

We also verified that with our New York office.

(*f*) Royalty agreements were examined and it was found that the rates of of costing royalties in respect of the gasoline cracking process as levied by affiliated companies were less than those levied by non-affiliated companies. The royalty costs—less any relative credits when earned—of affiliated companies are operated by a pooling arrangement and spread over the member companies on the basis of gasoline production.

(*g*) Administration charges originating at executive headquarters but costed against refining and marketing operations embodied such items as advertising, headquarters salaries, travelling expenses, printing and stationery, annuities and pensions, etc.

(*h*) The Contingency Reserve Charge included in costs applying to Accounts Receivable is the subject of some doubt in our mind as to its sufficiency to meet the purposes for which it was created. It should be borne in mind, however, that neither the selling policy nor the resulting potential loss could be considered a normal recurring circumstance.

(*i*) Tests of the changes in the Property Accounts and Repair Accounts disclosed no improper treatment of Depreciation Reserves in the matter of property retirements, nor the inclusion of any capitalizable items in repair costs.

That sounds very technical. Maybe I could explain it. The Company depreciates their property and they include those depreciation charges against their costs and set up a reserve. Now, when property is retired, if they had any idea of loading costs instead of retiring the property through reserve for depreciation, they would simply retire it in the usual way as property retirements through costs of operation. We did not find any such condition. Also on the vast extensions and the additions of an institution of this size, extending from coast to coast, their policy in the matter of depreciation between additions and betterments and operations was, in our opinion, quite sound and such as we would pass if we were certifying those accounts to the shareholders of the Company.

(*j*) Fire insurance protection for the Company's investment in plant, equipment and inventories of merchandise was not included in the costs of refining and marketing, ostensibly because the Company maintains and controls its own fire insurance funds. The Company could have quite properly included the equivalent of tariff insurance rates on all insurable property in determining the total operating costs for 1930.

This is indeed an extraordinary situation. Here is a Company with refineries that spread from coast to coast, with millions of dollars invested in inventories, and in dealing with the costs of a specific year, because they have built in other years a reserve in respect of fire insurance, it just so happens—and I am not in a position to say why the Company didn't do it—I am only able to say the Company did not do it in 1930. Those properties have gone insurance free so far as costs are concerned for 1930, and you, as business men, will know what effect that has on costs, on rates that will be applicable to the refineries of this Company.

(*k*) The depreciation policy of the Company was found to be conservative from the point of this investigation.

We put in there, "from the point of this investigation," because if we were reporting to shareholders we could not say that. The purpose of this investigation is the very reverse of what we would investigate, or the reverse position we would take if we were investigating for you, gentlemen, as shareholders; it could not be said that the depreciation is conservative from a shareholder's point of view; but from the point of view of this investigation in getting at the cost in its relation to selling prices, why, it is conservative from that point of view.

> In this connection it was established that the property accounts were written up on an appraisal valuation some years ago, but depreciation was based upon the depreciated cost balances and not against appraisal valuations. The Income Tax return to the Dominion Government, for 1930, shows that the rates producing the depreciation figure included in operating costs, was some three-quarters of a million dollars under what was allowable by the Income Tax Department.

I am not going to say whether the Income Tax Department rates are high, low, good, bad or indifferent. I am only giving you that for what it is worth.

> This understatement of cost is due primarily to the fact that the Company depreciates on the basis of reducing property balances whereas they could quite properly depreciate upon the basis of original cost.

That is just a simple mathematical statement. If you have a piece of property that costs you $100 and you say you are going to depreciate it at the rate of 10 per cent per annum on the annually decreasing value obviously you are not going to retire that property in ten years. You can see that the second year you depreciate on $90; the third year you depreciate on $81. In other words, it is $10 off $100 leaving $90. Then the second year you depreciate 10 per cent on $90; that cuts you down to $9 in your costs and so forth, so that the rates that they have been using have been applied to depreciated balances rather than against cost balances, and of course it has made a tremendous difference in the charges and the costs.

(1) Refinery inventories of crude oil, in-process products and finished products were priced upon the lower of cumulative costs or market valuations of the original crude oil content at both the beginning and the end of the year 1930. In-process products were first applied as finished products and inventory prices reduced by the cost of completing the specific refining processes. Depreciation and pro-rated administration charges were not included as cost elements at the beginning of the year 1930, whereas allowance was made for these factors in determining the basis for inventory pricing at the end of the year thereby reducing the 1930 refinery costs.

Might I explain it in this way: That in dealing with inventories, maybe we could compare it to a store. If you price your inventories on the basis of cost at both the beginning and the end of the year there is no change in the basis of prices. If you would price your inventory of stock, we will say at cost, at the beginning of the year and change that basis to market at the end of the year, if there are rapid fluctuations—as has been the case in the last two years—you can see that your operating profits for that year might very easily be misstated. Now, the Company have just changed their basis in one respect, but that works out to a reduction of the refining costs for the year.

> In connection with the refinery inventories, it should be noted that losses due to falling prices of crude oil and other materials have been absorbed in refinery production costs during the year and are not related to the basis of pricing the respective inventories.
>
> Marketing inventories were based upon refinery billing prices plus laying down charges, and include an element of profit anticipation affecting the costs for the year to the extent of the excess profit in the ending inventory over that in the beginning inventory for the year 1930.
>
> (*m*) The private books of Imperial Oil Limited were made available to us for the purpose of reconciling the net profit from the refinery and marketing operations in Canada as submitted by the Company in evidence, with the final profit of the Company from all sources. The reconciliation was made and no items affecting the basis of the Company's statement of refinery and marketing earnings were disclosed as a result of the examination of the private books.

More simply expressed, the refinery bill the marketing department, we will say, at a price of 11 cents. That is not relative. And we will say that that includes a profit of one cent a gallon to the refinery. Unless that gallon of gasoline is sold you gentlemen can readily see that there has been a profit anticipation of one cent that has not been earned. Now, the Company had an excess profit in 1930 which again reduced their cost, that is to say, the costs that they presented to this Committee.

Our final conclusion in the matter of operating costs as a whole is that the Company's records showed no evidence of "cost loading" by reason of affiliations in the United States and South America or because of any unfavourable accounting practices, but rather that the total costs, if anything, were under-stated because of the Company's outlined policy in the treatment of such matters as fire insurance premiums, depreciation rates, contingency reserve charges and inventory pricing.

The total costs are free entirely of charges for interest as might be related against funded debt or as a charge imposed by a parent company in the form of rental for use and operation of the refineries and marketing stations and equipment. In other words, the financing of Imperial Oil Limited has been effected through the sale of capital stock and the investment of a proportion of surplus earnings in extensions of plant and equipment facilities. In short, the refineries and marketing stations have been rent and interest free as far as the costs applied against the selling prices are concerned, and I illustrate it in this way:—

Company "A" has done its financing on a proprietorship basis, capital stock, and obviously its profits per gallon would show relatively high in comparison with Company "B" who finances 50 per cent or 60 per cent of its capital requirement by the issue of funded debt. In other words, that interest—without entering into the academic discussion of whether interest forms a part of manufacturing cost or some other form of cost—still has to be paid before the shareholders or the Company get the profit. I am just relating that as an instance. We are not contending that interest should be thrown in.

Now, we have dealt with the first main element, and we will now move to:

Division of Total Costs of all Products Between Refinery and Marketing Operations

A division of total costs of all products between refinery and marketing operations was made upon the basis of direct charges to the refinery up to the point of shipment and direct charges to the marketing operations covering all subsequent costs.

General administration charges in the form of head office overhead were distributed between refinery and marketing operations directly as far as practicable, and the balance on the basis of the estimated proportion of the time or expense involved as between the two operating departments. At that point we have the total costs now divided between refining and marketing operations. The next move is the division of those refinery and marketing costs into the prime product of gasoline.

Division of Refinery and Marketing Costs Between Gasoline and Other Products

The allocation of refinery costs between gasoline and other products was based upon the Federal Trade Commission method of computing costs of petroleum products supplemented by the process method to the extent that such items as Casinghead gasoline were charged direct to gasoline; compounding material was charged direct to compounded oils; ingredients for grease were charged direct to grease; supplies for candles such as wicking, were charged to candle production.

In the approach to this question of cost, gentlemen, I can easily understand the natural question that would arise in anyone's mind. If you go into a grocery store and buy a pound of bacon and buy a pound of granulated sugar there is a vast difference in the spread. Sugar, as you all know, is a staple item, and the profit to the grocer is little, if any. Bacon, perhaps, simply as a representative item of merchandise, will bear a five cent a pound profit. Maybe the grocers won't agree with me on that, but we will assume that it does. Now, you will say—and quite properly so—what has the sales realization method, which is another name for the Federal Trade Commission method, to do with the relative cost of sugar and bacon? My answer to that is, it has absolutely nothing to do with it for the simple reason that they are not derived from the same base. Let us start on that premise.

An extract from the Report of the Federal Trade Commission on the Pacific Coast Petroleum Industry issued on the 7th of April, 1921, under the heading of, "Allocation of Costs to Products" is as follows:—

> The Commission has adopted the method of allocating costs to the various products on the basis of sales value. This method, as already stated, was generally approved by representatives of the petroleum refining business, as the fairest and most satisfactory method of computing such a cost for the purpose of considering the reasonableness of prices.

They had the same object in mind exactly as we had.

This method of allocating the cost elements to the different products shows the highest cost for the most valuable and the lowest cost for the lowest priced product, and gives to each the same percentage of profit or less. Table 77 shows the combined cost of each important petroleum product for the five large refining companies in California, for the first six months of 1919, according to this method;

Table 77.—Allocation of refining cost to principal products, for five large refining companies, first 6 months, 1919.

The figures that follow are to be found at page 188 in the official publication of the Federal Trade Commission investigation into the petroleum activities on the Pacific Coast.

Product	Average yield from a barrel of crude oil, in gallons	Average f.o.b. refinery price per gallon	Refinery realization per barrel of crude oil	Percent of realization	Total cost of quantity secured from a barrel of crude oil (1)	Cost per gallon (2)
		$	$		$	$
Gasoline	4·1496	0·1516	0·62908	27·6408	0·3481	0·084
Engine distillate	1·4196	0·0811	0·11513	5·0586	0·0637	0·045
Kerosene	3·0240	0·0522	0·15785	6·9357	0·0874	0·029
Fuel and gas oil	29·9166	0·0347	1·03811	45·6130	0·5744	0·019
Lubricating oil	0·9282	0·2052	0·19047	8·3690	0·1054	0·114
Asphaltum	0·4536	0·0707	0·03207	1·4091	0·0177	0·038
Other products	1·1928	0·0949	0·11320	4·9738	0·0626	0·053
Total products	41·0844					
Refining loss	0·9156					
	42·0000	0·0542	2·27591	100·0000	1·2593	0·031

(1) Determined by allocating costs in proportion to value of products.

(2) Cost per gallon for all products.

The quantity of each product secured from refining a 42 gallon barrel of crude petroleum is obtained by applying the average per cent of yield shown for the five large refining companies in California to a barrel of crude petroleum. The f.o.b. refinery price is secured by deducting the freight and marketing expenses from the sale price, and the refinery realization for each product is the products obtained by multiplying the quantity of that product refined from a barrel of crude by the f.o.b. refinery realized price. The percentage of realization is the quotient resulting from dividing the realization for each product by the total realization for all products. The total cost for each of the principal products produced is obtained by multiplying the total cost of refining a barrel of crude petroleum—that is, $1,259—by the percentage of realization for each product, as shown in column 4; while the cost per gallon for each product is secured by dividing the total cost of the quantity secured from a barrel of crude oil by the quantity produced.

Our first thought on it was this: That might have been all right for the United States Government to come to a conclusion of that kind, but what other authorities can we get on this? So I got in touch with our New York people who have been engaged with oil companies for some time, and I asked them to send up to us the best work and the latest work and the most independent work that they knew of, on the most scientific and the most accurate basis of finding the cost of gasoline out of crude. We received from them this:

In 1925 a publication in book form entitled "Accounting for the Petroleum Industry" was issued by David F. Moreland, associate of the Institute of Chartered Accountants in England and Wales, and Raymond W. McKee, member of the American Institute of Accountants, supported by J. Hugh Jackson, Professor of Accounting in the Harvard Graduate School of Business Administration. Extracts from this publication under the heading of "Cost Finding" set out some reasons why the Federal Trade Commission method of basing costs is directly related to the actual costs of refining gasoline:—

> The fact that each of the products has a different value in the world's markets, and requires in its manufacture both a different constituent element of the crude oil and a different operating process, indicates that in allocating to such products the cost of their production, not only the quantities produced, but the values of such quantities, must be considered.
>
> The fact that the gasoline content—and this is the crux of the situation—of crude petroleum is usually the main objective of refiners, and that the posted market price for crude oil is graduated according to its specific gravity, indicates that the gasoline extracted carries with it a portion of the cost of the crude oil entirely disproportionate to the quantity of gasoline recovered. The same is true in varying degree in the case of kerosene, lubricating oil stock, and the other products; for as each successive product is removed, the residuum sustains a decrease in value which is attributable to two factors:—

1. Decrease in Quantity.

2. Lower value of remaining constituent elements. And this is where the cracking plants of the Imperial Oil come in.

> From the foregoing facts it would appear that we have reason for the general statement that the cost of crude oil should be allocated to each of its constituent elements in the proportion that the product of the quantity and value of such commodity bears to the similar total for all the constituent commodities.
>
> A further effect of this procedure (Federal Trade Commission Method) is to cause each of the products obtained to absorb a share of the evaporation loss from refining, in proportion to the marketable value of good production. This result is substantiated by the facts; for the production of gasoline, the product with the highest value and the one which will therefore bear the highest share per gallon of the evaporation loss, is responsible in processing for a large part of the loss.

We have the reasons from those independent authorities who are not connected with the United States Government; but the two accountants there named are practising accountants in the United States who have been engaged in the petroleum industry for a good many years and they give reasons why this basis in economically sound. It is not the case of bacon and sugar, gentlemen. But the next question that presented itself to our minds was this: That may be all right for the United States refineries, but it may not apply to the Imperial Oil. Conditions here may be different, so we proceeded to analyse that.

The Federal Trade Commission method of cost finding as applied to the Pacific Coast petroleum industry in the report issued 7th April, 1921, is amply justified in its use by Imperial Oil Limited, because in addition to the facts hereinbefore set out in the matter of allocation of costs, Imperial Oil Limited have made large investments in refinery cracking plants for the express purpose of securing the maximum gasoline yield from crude oil, according to the changing trend of trade requirements.

May I just say in this connection, that we are not making any statements that fuel oil is not drawn from the expensive cracking plant itself, but the point we are drawing is this, that as trade requirements for gasoline go up, for instance, the processes continue through the fuel oil to gasoline, so that the construction, operation, maintenance and depreciation of these expensive cracking plants must be attributed in its fair proportion for the product for which it is primarily created,—gasoline. The operation of these cracking plants involves increasing cost ratios with each advanced process in the refining of gasoline.

In this connection it should be noted that the average gasoline yield from a barrel of crude oil for five large refining companies in the Pacific Coast investigation was less than 10 per cent, whereas the equivalent gasoline yield in the refineries of Imperial Oil Limited in 1930 aggregated 52 per cent at Sarnia; 32 per cent at Halifax; 61 per cent at Regina, and an average for all Imperial Oil Refineries of 39 per cent. That is due to a variation of fuel oil and everything else in there, because you see at places like Halifax, Vancouver and Montreal there would be a high proportion of fuel oil.

Now this, gentlemen, is a thing I would like to make clear to you if I can. As against this increased ratio of gasoline production from crude oil secured by Imperial Oil Limited over the figures given for the Pacific Coast refineries, the average f.o.b. refinery price of Imperial Oil Limited gasoline in 1930 in relation to the average refinery price of all products shows a decrease in comparison with the Pacific Coast Refineries ratio, thereby fully justifying the application of the Federal Trade Commission method to the production cost of Imperial Oil Limited.

If I might just state it this way: If in 1921 the Federal Trade Commission, after their investigation, and if in 1925 these three authorities, which I later quoted, agree on the Federal Trade Commission plan, where in the case of the Pacific Coast Refineries the production of gasoline was 10 per cent, it is obvious, is it not, that they secured that gasoline at a very much less proportionate expense than the Imperial Oil? Now, it scarcely needs any further amplification of this, and we have reached the conclusion at this point, therefore, that the Federal Trade Commission plan of costing is more than justified in the case of the Imperial Oil. I do not think there is anything further I can say on that. We are still talking, gentlemen, about the refining and marketing costs between gasoline and other products. Up to this point we have discussed the refining situation.

The allocation of marketing costs between gasoline and other products was based on direct charges for freight from refinery to marketing stations, sales taxes and packages.

Marketing expenses including tank wagon and service station operation together with provincial and municipal taxes were distributed on the basis of gallonage sales, after eliminating for the purposes of allocation the bulk shipments of various products, more particularly fuel oil moving directly from refineries to consumers.

Marketing costs as a whole, applicable to gasoline, including transportation as shown in the Summary of Operations, were found to be legitimate items of cost from an accounting point of view, but, from an economic standpoint the proportion of marketing expenses to the cost of crude oil, to the refinery costs—

other than crude—and to the total costs, is high as may be seen from the following summary of retail operations expressed in terms of cents per Imperial gallon of gasoline converted to percentages:—

—	Sarnia	Halifax	All refineries
	p.c.	p.c.	p.c.
Total costs	100	100	00
Cost of crude oil and other materials—including transportation	46·6	57·7	53·1
Refinery costs—other than crude oil	15·0	12·8	12·7
Marketing costs—including transportation	38·4	29·5	34·2

The high cost of marketing in the gasoline industry, like many other industries in Canada, is due principally to the three following factors:—

(*a*) Territorial spread of the country which has been likened unto a "shoe-lace" and the resulting high transportation costs, due to comparative sparsity of population.

(*b*) Climatic conditions also affecting the cost of transportation and selling overhead in the winter months.

(*c*) Competitive conditions obtaining in the distribution and marketing of gasoline as may be evidenced by the many duplications of tank wagon deliveries and service stations in operation. As to the number of service stations owned and leased to operators by Imperial Oil, Limited, in Canada, it should be noted that in 1927 they controlled 38 per cent of the total, whilst at the end of 1930 their control had dropped to 21 per cent of the total, indicating that in the matter of the construction of service stations, Imperial Oil, Limited, did not keep pace with the development of service station facilities from 1927 to 1930.

The solution of the high marketing costs is indeed a difficult one in view of the fact that the territorial and climatic conditions in Canada are not subject to human manipulation and change, whereas the elimination of marketing competition with the object of reducing duplication costs to the consumer tends towards the undesirable condition of a monopoly in the distribution and marketing of gasoline in Canada.

That takes us to the third main feature. We are now at the point where we have gasoline costs extracted. We at this point secured the information on which we were able to determine what the gasoline costs were. The next move is the separation of those costs between the retail and wholesale trade.

Contingency reserve charges were allocated on the basis of dollar sales in connection with which the reserves were specifically created.

Division of Gasoline Costs as between Retail and Wholesale Trade

Retail costs of Imperial Oil, Limited, cover those applicable to tank wagon sales, tank car sales to large consumers and retailers, direct sales to farmers and coastal fishermen, both East and West, at tank wagon prices and consumer sales through their own service stations.

That, by the way, is not the general run. In that again we were skeptical, and we called for invoices.

There has been a great deal of talk about the fact that farmers and fishermen were being prejudiced in their position, and to the extent that we could determine it, they were getting the same price as given to service stations. We made an investigation of that, both east and west, tank wagon price and consumer sales, and therefore there is a logical question comes up there as well. If that is the case, how can you justify the existence of any service station dealers at all. How can they live? Well, you have the human element. You have an entirely different situation. The Imperial Oil, and I presume the other oil companies, have to keep shifts of men. These particular men, of course, are working for a company, not for themselves. The individual independent station operator throws his own labour into his own work, and I do not need to emphasize that point any farther to any employers of labour. You know what I mean. And I am in that respect casting no aspersions on the employees of the Imperial Oil. I am talking about the human psychology, that if a man is working for himself, he will work any number of hours. He will involve, as you will find in many places, part of his family in his operations, and you have thereby an entirely different situation of cost. Everything the company does has to be paid for on the nose. That was dealing with retail cost. We are still talking of the division of gasoline between retail and wholesale.

The general accounts of the Company were not separated between tank wagon and service station business but from a special analysis it was determined that as far as owned service stations were concerned, the spread between the tank wagon prices and consumer prices was exceeded by cost of operating the service stations, thereby eliminating any element of profit to Imperial Oil, Limited, beyond tank wagon business.

That is done by the company simply as a means of getting a more accurate application of the two. In other words, so far as we have ascertained, the policy of the company has always been to make direct charges as far as practical, and to allocate the balance of the charges on what you would call an equitable basis.

Wholesale costs cover those related to tank car and tank ship trade with jobbers.

The refinery costs of gasoline are allocated between retail and wholesale trade mainly on the basis of gallonage sales. Provision is made in the allocation for the extra lead content of retail gasoline over that contained in the wholesale product.

The depreciation and general administration expenses and provincial and municipal taxes should be considered as part of the manufacturing expense allocation to wholesale gasoline in conjunction with the resultant decrease in refinery costs applicable to retail gasoline.

In the original exhibit filed by the company, found in Minute No. 3, they showed there no charge for depreciation on their wholesale business. We took exception to that reasoning on the ground that you cannot sell 140,000,000 gallons of gasoline to the wholesale trade as against, we will say, 250,000,000 or 260,000,000 gallons of gasoline to what may be termed the retail trade without having incurred an additional element of construction. It is naturally admitted by all, I think, that you would not construct a plant that would just sell 250,000,000 gallons of gasoline and no more. But our point was that you cannot justify 150,000,000 or 140,000,000 on that ground. So we investigated the thing further, and what we found was this, that the manufacturing expenses which were allocated on a straight gallonage basis of, I think, their figure was 1·71. That is, they were allocating as much to wholesale as they were to retail. Now, that was just as fair on the other side in point of principle. What we say here is we do not agree with any contention that is made to the effect that there is no depreciation in the wholesale position. There is, because the proportion of the retail is such a figure that it is obvious; so that in the statement which we will submit, we have bracketed the depreciation and general administration with the manufacturing expenses; and we would like to be perfectly clear, that whilst we agree with the net distribution, we are not contending, before this committee, that there is no depreciation applicable to wholesale business.

Dominion Income Tax is divided between retail and wholesale gasoline on the basis of the relative net profits.

The allocation of marketing costs between retail and wholesale gasoline was based on direct charges for freight from refinery to marketing stations, sales taxes and packages.

Provincial and municipal taxes are applied directly to retail gasoline on the ground that shipments to the wholesale trade are made direct from the various refineries to the wholesalers, who in turn are obliged to absorb the provincial and municipal taxes on their own marketing warehouses and equipment.

Marketing expenses were applied direct to retail gasoline less an allowance to take care of clerical costs of contract and accounting work on the ground that the aforementioned expenses are the only ones involved from a wholesale marketing standpoint due to the fact that shipments move directly from refineries to wholesalers.

Contingency reserve charges all apply to retail gasoline because no relative provision was made in respect to wholesale gasoline accounts receivable.

We are now to the next main question. We have been discussing here the division of gasoline costs between retail and wholesale. Now, we are through with costs, and we move to selling prices: We have read some of the evidence in question in this regard, and we have endeavoured to summarize what we believe to be the pertinent facts, which the members of the committee are trying to ascertain in connection with the selling prices of the Imperial Oil.

Average Selling Price of all Gasoline

The average selling price of all gasoline was determined on the basis of the total sales value of gasoline divided by total gallonage involved in the sales.

An examination was made by us into the basis of establishing prices of gasoline of Imperial Oil Limited during the years 1929, 1930 and 1931 with a view to determining the following factors:—

It might occur to some members of the committee, why do you go back to 1929 when you are talking of 1930. We did this because we believed that what the members were endeavouring to ascertain was this, if this company has taken advantage of the increase in the duties that came into effect, as I recall, sometime in the latter part of 1930. So we started with the base in 1929 to get right back, as I think the rate was something like one cent. That is the picture we started on. What has this company done in regard to fixing these prices in order to load the Canadian consumer with the protection that the government gave them. These are the three things that we kept in mind:

(*a*) Constancy of gasoline price movements up and down in relation to fluctuations in crude oil posted prices plus added charges of excise tax, sales tax, freight surcharge and exchange.

We do not mention transportion in there because that is what may be termed a fairly permanent item. It does not fluctuate like exchange.

(*b*) A comparison of Imperial Oil gasoline prices with competitive prices in United States.

(*c*) Relationship of the difference between the gasoline prices based upon crude and the competitive United States prices applied to the specific and dumping duties.

That is, first we wanted to satisfy ourselves how this company bases its price; secondly, having ascertained that figure, let us now compare what gasoline could be brought in at various points over the country without duty, and see how it relates; and take the difference and see whether there is a spread that absorbs any of the specific duty or all of it, or any of the specific and the dumping duty or all of it. But to get the picture clear in our minds, let us remember that we determine the basis of the price first to ourselves as merely a mathematical result, depending on how conditions are in the United States. Now, here is our statement in this regard.

Taking 1929 as a starting point with a mid-continent crude oil well price of $1.45 per barrel and working up to the end of 1931, during which later year crude fell to 18 cents a barrel at the well plus the fluctuating elements of additional costs, it was determined that the Imperial Oil Limited tank wagon prices were kept in definite line with the fluctuations in the price of crude oil regardless entirely of specific and dumping duties up to October, 1931, from which latter date to December, 1931, the refinery prices of crude, including the added charges mentioned, advanced without corresponding increases in the price of gasoline. Our tests embodied the following points:—

Calgary,	Winnipeg,
Edmonton,	Hamilton,
Saskatoon,	Toronto,
Regina,	Border Cities
Brandon,	

I suppose we might have selected others, but those were the ones we have selected. There was no particular rhyme or reason why it was done, but those were the ones we decided on.

It was also found that the price of kerosene normally moving in line with gasoline was reduced to the western farmer in the middle of 1931 to a greater extent than was warranted by the reduction in the price of crude oil.

I cannot find any reason why the company reduced it other than from a survey of the sales department files. They simply made the bald statement they were going to give the farmer the benefit of the reduction to move his crop. It has no relation whatever. It is below what the minimum price for kerosene would have been had it been held in line strictly with crude oil and the difference in the fluctuating costs. Up to that point we have determined the basis of fixing the price. We will now move that price to a comparison with the prices from the United States, taking the conditions such as they are.

A comparison of United States competitive gasoline prices with Imperial Oil prices shows the following result:—

(*a*) Imperial Oil service station and tank wagon prices below United States prices without any specific or dumping duties.

We found that in certain points which were not affected by the gasoline racket, where there was any normal sort of pricing of gasoline in the United States, when you lay it down in Canada, that the Imperial prices were lower. I am saying, as you move away and are situated farthest from the point of competition that was based upon bootlegging.

(*b*) Imperial Oil service station and tank wagon prices over competitive United States prices after allowance for specific duty in part or in whole.

As you move a little closer to this area or to those areas where the price structure of gasoline in the United States is demoralized by the evasion of taxes and price wars, you find a drift as against the Imperial Oil prices to the extent of a part of the specific duty, maybe a cent, maybe a half cent. Then you move to the points right in the thick of the battle, and you find:—

(*c*) Imperial Oil service station and tank wagon prices over competitive United States prices after allowance for specific duty plus dumping duty in part or in whole.

When you move to a centre like the Border Cities you are in competition or would be in competition, with gasoline that they were bringing over duty free from Detroit, and where, by the way, we find the prices to be under what they were quoted at the point of production. You find the same situation in Seattle. When you bring those prices over to Canada, you will find the price spread between the gasoline of the United States and that of the Imperial Oil exceeds to-day the specific and the dumping duties. I do not know to what extent the details of this have been placed in evidence, but we will be very glad to give the committee, if they want it, the specific points moving under those headings.

The CHAIRMAN: Yes, we will be very glad to have them.

The WITNESS: I will be very glad to turn them in. We will make further tests, if you like. They cover such places as Halifax versus Calgary, Toronto versus Buffalo, and other cities. I shall file this statement with the clerk. We have not accepted those figures; we have gone into them. These are our conclusions in respect to the fixing of prices by the Imperial Oil in Canada:—

We placed before the committee detailed information covering various points in Canada showing differences between United States competitive prices and those of Imperial Oil Limited, and it was stated in conclusion of our evidence in this respect that no ground existed for any statement contending that the company took undue advantage of either the specific or dumping duty because, as hereinbefore stated, the establishment of gasoline prices by Imperial Oil Limited to consumers during the years 1929, 1930 and 1931, were based entirely on the fluctuation of crude and added charges regardless of existing specific and dumping duties. Our findings further brought out the fact that the reason for the differences between United States competitive prices and those of Imperial Oil Limited was due to the demoralized condition of the gasoline industry in the United States caused by the over-production of gasoline and the various tax evasion rackets which in turn resulted in the price of United States gasoline falling far below the relative movements in crude oil prices.

There has been a great deal of evidence given in connection with the gas racket in the United States, and we did not know to what extent we could accept it, so we had our New York office investigate the situation absolutely independently, to find out if the condition was as bad as it was painted. I really hesitate to tell you to what extent our partner in New York said that this gasoline racket had eaten into the very vitals of the industry and the revenues of the various states and the administration of the law. But he did say this: "From our contact with our New York and Chicago and Detroit offices, the gasoline racket had reached the point where the Prohibition Act is just child's play."

Now gentlemen, we have tried to take a sort of abstract view of things, but I am giving you statements that are facts.

A further point brought out in our findings was the higher quality of Imperial Oil Limited gasoline in comparison with that at competitive United States points upon which the comparative price structure was based.

In all of this, of course, it is based upon three star quality. We have seen tests that have been taken from the tanks, showing the octane ratings at those competitive points, and the three star rating in octane quality is higher without exception than that in United States gasoline the price of which is compared with the Imperial Oil product. As I say, without exception, so far as our tests went. We did not test every station in the United States, or every point in the United States. We endeavoured to take them on a fairly representative territory. Now we move to the zoning system. We observe there has been considerable discussion about the prices, and when you have a refinery at Halifax, why you cannot get your gasoline cheaper there. When you move out 150 miles from Halifax, you might find that the freight from Halifax added on to the consumer's bill is more than he pays, and there is confusion in the first instance. We are a little at a loss to explain the confusion, because it is not an uncommon practice. The zoning of transportation differentials is not new; it is not only related to the oil business. You can refer in Canada and the United States to a dozen types of business that have the zoning of transportation differentials.

In the application of these tests it was also found that the zoning policy determining the selling prices of retail gasoline by Imperial Oil Limited resulted in the spreading of transportation differentials to the comparative disadvantage of gasoline consumers at centres of trade in proximity to some refineries, whereas the zoning price basis frequently operated to the advantage of gasoline consumers in the districts outlying from the refineries.

The simple explanation of it is this, gentlemen: the oil business is one of the most, if not the most, competitive on a world wide scale; and I do not care what you do, oil will find its level in those world prices. As traffic moves from the United States towards these refineries, the Imperial Oil, and I presume the other companies have to absorb the freight differentials. As they move away from that incoming gasoline, the differential is spread, so that in the final analysis, the net return to the refinery is an equalization of the freight. We are not prepared to say that the company is not making mistakes in allocating too little to one, and too much to another. It is a matter of local investigation; but the principle is a sound one. The principle of it is recognized, and in the points that we tested, we were able to see that as it worked away from the refinery towards the incoming gasoline competition, that the profit to the refinery was less. That is the simple explanation. As it moved away from that, the profit was greater. Now it means that in some cases a point outlying from a refinery 150 miles might get their gasoline at quite a substantial absorption of their freight charge simply because they were lined with perhaps group No. 3 or with the Montana field or some other field. What we thought was this: supposing the Imperial Oil made their prices a competitive one where traffic was moving towards the refinery, and supposing they loaded a man north of the refinery where there was no refinery located, at a price to meet it. Well now, we tested those cases, and we did not find any such instances as that. We were rather apprehensive we might find in that freight differential, the loading of a higher price against a man away from the movement of competitive gasoline. We did not find it. We found that the rates were equalized in our tests. It was also found that tank wagon gasoline prices are given to farmers and coastal fishermen both east and west.

In this connection it should be borne in mind that in such districts as have no dealer competition or where any dealer association arrangement exists, the spread between Imperial Oil tank wagon prices and the price to the consumer is entirely in the hands of the independent dealers.

In other words, the matter of the price to the consumer may be affected by the policy of the independent dealer; but so far as the Imperial Oil service station price to the consumer is concerned, we can speak from a knowledge of the fact, but we do not know what the small dealer may do at some outlying point or some point where there is some association of dealers, in the matter of price.

Wholesale prices are not zoned to fluctuate at a fixed margin under retail, and, in some cases, have been adjusted upward in order to prevent wholesale business being done at a loss, as was the case in 1930 when the net loss per imperial gallon on wholesale trade was ·04 cents.

In other words, we are calling to your attention that the zoning of the wholesale prices brought about an increase over 1930, and the only reason that we can assign to it, is that the company lost money on the wholesale business in 1930. I suppose it logically follows, so far as I know, no companies are in business for charity, and I suppose you might consider it this way—I do not know whether this was their reasoning—that if they did not pass that loss on to the wholesaler, but as a spread to work on, might not that loss have to be passed on direct to the consumer through the medium of their wagon and service station prices. I am just drawing a conclusion there as to that, I don't know, I am not stating the fact.

Division of Average Selling Price of all Gasoline Between Retail and Wholesale Trade

The division of the average selling price of all gasoline between retail and wholesale trade was based upon the respective dollar sales and gallonage.

Average Net Profit on all Gasoline

The average net profit on all gasoline was determined on the basis of the total profit divided by the total gallonage sold.

A summary of the average net profit on all gasoline sold by Imperial Oil Limited in 1930 is as follows:

Sarnia Refinery, 1·14 cents per Imperial gallon.
Halifax Refinery, 1·40 cents per Imperial gallon.
All Refineries, 1·01 cents per Imperial gallon.

The net gasoline profit at Halifax is higher than Sarnia principally because the Sarnia trade involves a greater proportion of the wholesale business.

The average gasoline profit for Sarnia and Halifax combined is higher than the average for all refineries partly because gasoline is sold to the individual farmers in western Canada at tank wagon prices.

Division of Average Net Profit Between Retail and Wholesale Trade

The average net profit as between retail and wholesale trade was based upon the determined net profits divided by the respective gallonage sales.

A summary of the average net profit for both the retail and wholesale trade of the Imperial Oil Limited in 1930 is as follows:

	Retail	Wholesale
Sarnia (in cents per Imp. gal.)	1·93	·05
Halifax (in cents per Imp. gal.)	1·69	·25
All refineries (in cents per Imp. gal.) . .	1·66	·04—Loss

1930 and 1931 Price Trend of Crude Oil at the Well and Gasoline in Canada—Imperial Oil Limited

As the 1931 operating figures of Imperial Oil Limited are not yet available the Committee instructed us to base our investigation on the 1930 accounts and secure sufficient information as to indicate the probable trend of operating results as between 1930 and 1931. This was done on the basis of the average price trend of crude oil with added costs and the average gasoline prices of Imperial Oil Limited in the two years.

Our findings are that the average spread between crude oil with added costs and tank wagon gasoline prices in Canada for the years 1930 and 1931 were equitably maintained, whereas the average spread between crude oil and wholesale prices showed an increasing tendency in 1931 due to the reduction of differentials to certain wholesalers some of whom were also engaged in competitive refining.

Comparison of Imperial Oil Limited Results with those of British American Oil Company Limited and McColl Frontenac Oil Company Limited

The Committee order dated 22nd March, 1932, to us covering the comparison of Imperial Oil Limited operating results with those of the British American Oil Company, Limited and McColl Frontenac Oil Company Limited reads as follows:

> That simultaneously with this investigation by the auditors into the aforementioned cost and selling factors of Imperial Oil Limited, they secure from the British American Oil Co., Limited and from McColl Frontenac Oil Co. Limited, statements in such form as will render practicable a comparison of the relative costs and selling prices of the three corporations, thus offering means of disclosing any major variations without entailing the additional expense of investigating the smaller oil companies operating in Canada.

In accordance with the aforementioned Committee order we secured from the British American Oil Company Limited and McColl Frontenac Oil Company the required operating statements in similar form to those prepared in connection with the investigation of Imperial Oil Limited, but in view of our findings on the net profit on gasoline sales by Imperial Oil Limited we have deferred our examination of these statements pending further instructions from the Committee.

The result of both the statements submitted to us, expressed in cents per gallon, on the forms required, without our examination show an increase over the profit of the Imperial Oil per gallon; that is, gallonage profit.

That is easily explained, I think, gentlemen, on the ground that the Imperial Oil deal from coast to coast. In other words, they do not select territories. The other two companies—the McColl Frontenac and the British American—in their selling policies so far as we have been able to ascertain, their locations at strategic points indicate that their operations, of course, are not widespread, and, therefore, the result is obvious, because Canada is a country of good and bad territories from the point of view of operation.

CONCLUSION

Our conclusions, based upon the examination of the records of Imperial Oil Limited in respect to gasoline are summarized as follows:

(*a*) That the Company's records relating to the 1930 operating costs charged to gasoline showed no evidence of "cost loading" by reason of affiliations in the United States and South America or because of unfavourable accounting practices, but rather that the gasoline costs if anything were not fully stated because of the Company's conservative polices in the treatment of such matters as fire insurance premiums, depreciation rates, contingency reserve charges and inventory pricing. The total costs were free of charges for interest as might be related against funded debt or as a charge imposed by a parent company in the form of rental for use and operation of the refineries and marketing stations and equipment. In other words, the financing of Imperial Oil Limited has been effected through the sale of capital stock and the investment of a proportion of surplus earnings in extensions of plant and equipment facilities.

(*b*) That the 1930 marketing costs charged to gasoline, whilst as a whole legitimate from an accounting point of view, were high in relation to total costs. The high cost of marketing is attributed to territorial and climatic conditions of the country and competitive conditions obtaining in the distribution and marketing of gasoline in Canada. In view of the fact that the territorial and climatic conditions in Canada are not subject to human manipulation and change the solution of the problem would seem to lie in the elimination of marketing competition with the object of reducing duplication costs to the consumer, but this would undoubtedly tend towards the more undesirable condition of a monopoly in the distribution and marketing of gasoline in Canada.

(*c*) That variations in gasoline prices in 1929, 1930 and 1931 to consumers were not based directly upon ascertained refinery costs but upon the variations in the market cost of crude oil with fluctuating additional charges for excise tax, sales tax, freight surcharge and exchange, and as a result it automatically follows that no grounds exist for any statement contending that the Company has taken unfair advantage of either the specific or dumping duties in its gasoline prices to consumers during the period under investigation.

(*d*) That the reason for the unfavourable comparisons at some points between United States competitive prices and those of Imperial Oil is due to the demoralized condition of the gasoline industry in the United States caused by the overproduction of gasoline and the various tax evasion rackets, which, in turn, resulted in the price of United States gasoline falling far below the relative movements in crude oil prices.

(*e*) That the zoning basis of establishing gasoline prices results in the spreading of transportation differentials to the comparative disadvantage of gasoline consumers at centres of trade in proximity to some refineries, whereas the zoning basis frequently operated to the advantage of gasoline consumers in the territories outlying from the refineries. It was also found that tank wagon gasoline prices are given to farmers and coastal fishermen both east and west.

(*f*) That in such outlying districts as have no dealer competition or where any dealer association arrangements exist, the spread between Imperial Oil Limited tank wagon prices and the price to the consumer is entirely in the hands of the independent dealers.

(*g*) That apart altogether from the basis used in the establishing of gasoline prices, the spread between such selling prices and the combined costs of refining and marketing showed an average net profit of not exceeding 1·01 cent per Imperial gallon of all gasoline sold by Imperial Oil Limited in the year 1930.

May I just mention this to the Committee in passing: There is a tremendous misconception all over this country concerning the profits of Imperial Oil made in Canada.

In 1930 anyone who was a shareholder of the Imperial Oil received a statement. That statement showed a tremendous difference between the figures we have quoted you and the net earnings of the Imperial Oil Limited, and this is the reason: Most of that money is made on the production of petroleum in South America, shipped in world trading, and in the refining of gasoline in South America; and those profits, in the form of dividends, are brought into this country by the Imperial Oil upon which the Company, in 1930, paid Income tax of a million dollars.

Now, this is really apart from our investigation, but, for the general benefit of this Committee, there is a danger here. This Company has voluntarily brought this money into Canada. In considering their profits,—in some evidence here I think that there was some question raised about what their profits are on their capital investment, and so on—don't lost sight of the fact, gentlemen: those profits are not on refining and marketing in Canada—and it is entirely within the powers of the Company to divert that money from Canada without in any way affecting their gasoline refining and marketing operations in Canada.

I wish to emphasize that fact to the Committee, for your information. In contrast with the figures shown in evidence—as if the Company had made tremendous profits on the splitting of stock and stock dividends on their marketing and refining in Canada—altogether, taking in 1930 the net assets of the Imperial Oil in Canada with their properties at cost, not appraisal, with their investments in International Petroleum at one-third of the present depressed market values, they show a return of six and a quarter per cent.

Now, that is the picture I wish to lay before this Committee: that the Imperial Oil—whether we like it or not—are bringing into this country money made in world trading outside of Canada,—and certainly from one of those books that I read it would appear that they have just built up a tremendous surplus in this country out of operations. Gentlemen, that is entirely false. In 1930 the return to the Imperial Oil on their investments at cost, which they could very easily have written up, was six and a quarter per cent on the marketing and refining over this country.

I might also say this: the refining and marketing business is a business in which the equipment of to-day becomes obsolete in ten years. It is not necessary for this company to refine in Canada. For instance, refineries could be located in Jamaica at points very much more in touch with the source of their supply.

Now, just in considering the attitude to the Corporation, bear in mind that in a period of time the refining operations may radically change, and there isn't anything that I see that could stop the Company from refining outside of Canada entirely, and keeping entirely out of this country their profits applicable to world trading. This would reduce profits, in 1930, to $7,000,000.

(*h*) That in view of the fact our investigation of Imperial Oil Limited disclosed no improper accounting practices in the matter of costs or unstated profits and because Imperial Oil Limited occupy the leading position in the gasoline industry in Canada, we are of the opinion that the expenses which would be involved in extending our investigation into the records of the British American Oil Company Limited, the McColl-Frontenac Oil Company Limited and other oil companies in Canada would not be justified in view of our findings on the average net profit per gallon of gasoline sold by Imperial Oil Limited in 1930.

I would like to just make this remark in closing: The senior partner of our firm for Canada, Mr. Bennett, who, by the way, has never yet met Prime Minister Bennett—and I were both rather personally convinced when we started this work that the facts would be different than we found—I have no hesitancy in saying to you that I personally started this investigation for this Committee convinced that matters pertaining to affiliations, costs of laying down their crude in world ports, transportation, differences as between their marketing and refining costs as stated to this Committee, and the final net profits of the Company as a whole, of which I have knowledge,—we started in the belief and of the opinion that we would change these figures. We have not been able to do so. So, in order to explain our position, I want to make that definitely clear.

In fairness to the Company, they have thrown everything open to us. They did not need to throw open their private books, but they did so. They made accessible to us all of their selling files, all of their purchasing files, all of their confidential correspondence between affiliated companies, and, so far as we are concerned, there was no information which we asked for, and there was no work which we asked them to undertake, that they did not complete for our examination.

That is all, gentlemen.

By the Chairman:

Q. Mr. Mathews, I suppose that your findings are based on your investigation and that you have with you the result of the investigation in tabulated form that you would be willing to discuss with the Committee?—A. Yes, Mr. Chairman. I will be glad to discuss this with the Committee as far as they wish to go, individually or collectively.

By Mr. Donnelly:

Q. You have the report with you that you received from the McColl-Frontenac and the British American?—A. Yes.

Q. You will file that with the Committee?—A. Well, now, with your permission,—you had better get a copy, Mr. Donnelly; we just have our own.

Mr. DONNELLY: We should have that, Mr. Chairman.

The WITNESS: I mean, that is up to the Chairman. It is immaterial to us.

The CHAIRMAN: I don't think there is any objection to filing it.

The WITNESS: I don't think you will have any difficulty in getting it.

Mr. BOTHWELL: There are a number of questions, Mr. Chairman, that I would like to take up with this witness. It is just about one o'clock.

The CHAIRMAN: Yes. I will undertake that Mr. Matthews will be here at any time selected by the Committee, and that he will go into any detail referred to in his report, or that he has investigated, with any members of the Committee.

The WITNESS: Our working papers are here available.

Mr. BOTHWELL: I think it would be well for us to arrange a meeting, Mr. Chairman.

The WITNESS: Might I make a suggestion in that regard as a time saver. If Mr. Bothwell, or any member of the Committee, would be good enough to let me have their questions now I could have them ready for the morning.

Mr. BOTHWELL: One question will lead to another, don't you see, and we have only made very brief notes.

The WITNESS: It is only a suggestion, Mr. Bothwell, just to save time in case there was anything that we might have to spend some time on.

The Committee adjourned to resume on Wednesday, May 4, at 3.30 p.m.

SESSION 1932

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

TUESDAY, MAY 3, 1932

No. 17

Reference.—Price of Gasoline

WITNESS:

Mr. J. A. Wales, Director of McColl-Frontenac Oil Co., Ltd.

Appendix,—Documents filed by Imperial Oil Ltd., and McColl-Frontenac Oil Co., Ltd.

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1932

MINUTES OF PROCEEDINGS

House of Commons,

Tuesday, May 3, 1932.

The meeting came to order at 10.30 a.m., Mr. Matthews presiding.

Members present: Messrs. Arthurs, Baker, Bothwell, Bowman, Donnelly, Fafard, Ganong, Hurtubise, Matthews, McPhee, Perley, Ryckman, Smoke, Stanley, Sullivan.

The Imperial Oil Limited filed,

(*a*) Statement showing the average monthly well prices of 36 gravity, Mid-continent, Illinois and Canadian crude oil, for the years 1930 and 1931. (See Appendix hereto.)

(*b*) Memorandum *re* errata in exhibit printed at page 120 of proceedings of evidence. (See Appendix hereto.)

J. A. Wales, director of McColl-Frontenac Oil Co. Ltd., re-appeared and gave evidence in refutation of the evidence of witness Coplan with respect to overcharges and filed loading reports, bills of lading and Standard Abridged Volume Correction Table for Petroleum Oils. (See Appendix hereto.)

Witness also gave evidence regarding the matters referred to in letters of the 25th and 27th April, which letters and the statements attached thereto were ordered filed and printed. (See Appendix hereto.)

George A. Touche & Company, the auditors appointed by the Committee, presented their report by Mr. O. A. Matthews, a member of the firm. Mr. Matthews being sworn read the auditors' report giving verbal explanations.

Consideration of the report was deferred till the next meeting.

It being one o'clock the committee then adjourned till Wednesday, May 4, at 3.30 p.m.

A. A. FRASER,
Clerk of the Committee

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

TUESDAY, May 3, 1932.

The Select Standing Committee on Banking and Commerce met at 10.30 o'clock, Mr. Matthews presiding.

The CHAIRMAN: Gentlemen, before we hear the auditor, we have called an officer of the McColl-Frontenac Oil Company to give evidence on some points on which they wrote us some time ago. Mr. Wales, representing the McColl-Frontenac is here, and I shall hand these letters to him and ask him to confine himself to the points therein referred to.

J. A. WALES, recalled.

Mr. Chairman and gentlemen of the committee, Mr. Coplan in his evidence on April 19th states on pages 401, 403, 404, that McColl-Frontenac do not give credits for temperature while the United States Companies gave such credits. I have with me a statement contradicting the evidence given by Mr. Coplan, and since it has been suggested that I should file this statement, I would like to make one or two brief remarks in connection with it.

In the first place, I would like to state that McColl-Frontenac gives credit for all temperatures above 60 degrees. In the second place the credits which we have given to the Super Service Gas and Oil Company over the period covered by the statement from May 1st, 1931, to March 31st, 1932, exceeded the debits. On a total of 39 cars shipped, credits were given to the Super Service Gas and Oil Company on 27 cars. These allowances totalled 2,278 gallons, or an average of 84·4 gallons per car. Quantities were added on only twelve cars, amounting to a total of 1,010 gallons, or an average of 84·2 gallons per car. You will note over the whole period allowances which were made were in excess of additions charged by 1,268 gallons. In the third place the corrections which we have made in temperature are in accordance with the accepted practice throughout the oil industry, and the tables which we are filing with the committee are approved by the American Society of Testing Materials, the United States Bureau of Mines, United States Bureau of Standards, and the American Petroleum Institute.

By Mr. Bothwell:

Q. In your invoices, Mr. Wales, do you set out the debits or credits?—A. I am coming to that, Mr. Bothwell. The full statement as regards temperature corrections, measured gallons and net gallons are given in loading reports, all of which I am submitting with my evidence. I am also submitting the invoices.

Q. Does that come to the attention of the purchaser?—A. It does. I am coming to that in my evidence, Mr. Bothwell. These loading reports are sent together with the bill of lading to the purchaser, and besides containing the measured gallons, the temperature and the correction for temperature, it contains the net gallons, and also the seal numbers with which the car is sealed both at the top and the bottom. Now, the purpose of sending these loading reports with the bill of lading is so the purchaser will receive these loading reports as soon as possible after shipment of the car; so that he will be in a position to check the car's measurement and also check the seal numbers on the car to make sure the car has not been tampered with. If we waited one or two days to send these loading reports with the invoice, the car in most cases would arrive at the destination ahead of the invoice, and the purchaser would not be in a position to check the quantity received against the quantity loaded immediately on the arrival of the car.

Now I am filing, as I stated, the loading reports along with copies of the invoices and the tables which we have used in making those corrections. There is just one other point, Mr. Chairman—

Q. Well before you leave that Mr. Wales, the evidence of Mr. Coplan was that he has had a dispute with the McColl-Frontenac in connection with those shipments; is that true?—A. In the evidence I read, Mr. Bothwell, I think he said—

Q. I think he said that he had not paid for those cars yet, and that he has always—.—A. I do not think the evidence says that in regard to our company. The evidence I have reference to is on page—

By Mr. Donnelly:

Q. I think he said he had not paid the tax.—A. He has paid us for the cars.

Q. I think he said he had not paid the tax to the province.—A. The evidence I have given is a direct contradiction of his evidence that in September the McColl-Frontenac gave no credit for loss unit in temperature. In my evidence I am including the two cars mentioned by Mr. Coplan, showing that we gave the credit on each of the two cars shipped in September to the amount of 96 gallons on each. Now, there is just the question of the freight rate—

By Mr. Bothwell (Reads from Coplan evidence):

Q. "By Mr. Bothwell. Did it ever strike you as peculiar that they give you the temperature and add the gallonage in the winter time?—A. I was always kicking. Q. They don't mention it in the summer months?—A. I was always kicking against this." That is his evidence on page 401. I was under the impression he gave evidence that he had not yet paid for those cars.—A. The evidence on page 401 to which I have reference, Mr. Bothwell, is a direct statement. His answer was, "By Mr. Bothwell: Q. I am taking the same time of the year, practically. On September 14, McColl-Frontenac gave no credit for loss in temperature.—A. No."

Q. What page is that?—A. It runs over two pages.

Q. What two pages, 401 and 402? On page 402 Mr. Stanley asked "why do you pay for that?" and his answer was "Am I going to stand a court trial? They issue a writ against me. In fact, I have not paid for those two cars yet. I have to pay it, and I have to pay it in full. For the sake of $200 or $240 I would not go and stand defense in court. I would rather pay that and be done with it. Rather than go in court, if I can help it."

The CHAIRMAN: To what company does that refer, Mr. Bothwell?

Mr. BOTHWELL: The McColl-Frontenac.

The WITNESS: Mr. Bothwell, on the top of page 401 you asked Mr. Coplan, "I am taking the same time of the year, practically. On September 14th McColl-Frontenac give you no credit for loss in temperature?" and his answer is "No." and that is what we have contradicted here.

Q. I understand that. I am just asking you if there was a dispute in regard to that.—A. Not so far as I am aware of. The invoices have been paid as rendered.

Q. There is no truth in his statement on page 402 when he says "I have not paid for those two cars yet."

Mr. BAKER: Does it make any material difference?

Mr. BOTHWELL: I am asking a question as to whether there is a dispute in connection with it?

The WITNESS: Not that I am aware of. I understand the account has been paid, and has been paid when the invoice was rendered.

Q. You don't know that?—A. No. I can submit it in evidence later, though. I will find out definitely what has been paid.

By Mr. Geoffrion:

Q. At all events, you gave credit for the excess gasoline on those two cars? —A. Yes.

The CHAIRMAN: The point is, he got credit.

The WITNESS: I think your question has reference to the British American cars, Mr. Bothwell, because you switch off from McColl-Frontenac half way down the page.

Mr. BOTHWELL: That is possible.

The WITNESS: Because, you say, " When you come to the British American, in March, for instance, they set the temperature and charge you 240.—A. Yes, and 201 in one of them." He switched off our company there.

Q. It may be that that refers to the British American.

The CHAIRMAN: The point is he got the credit.

The WITNESS: There is one other statement I am submitting in regard to the freight rate. There was some question as to the correctness of the evidence I gave on freight rate from Toronto, Ont., and Bradford, Penn., to Ottawa, Ont. I am submitting a statement here showing how the freight rates per gallon are developed, and giving the tariff references.

By Mr. Bothwell:

Q. What is the freight rate from Bradford?—A. To Ottawa it is 36½ cents per 100 pounds, equivalent to 2·89 cents plus per gallon. The freight rate from Toronto, Ont., is 37½ cents per hundred pounds, equivalent to 3·00 cents per gallon.

By Mr. Donnelly:

Q. Of course, in taking the freight from Bradford you have to deduct part of that on the charge in freight?—A. Just recently within the last three or four months, exchange has been in effect. The different tariffs to which I refer would give these rates in cents per hundred pounds.

By Mr. Bothwell:

Q. Surcharge added?—A. Yes, surcharge must be added.

By Mr. Donnelly:

Q. The freight is paid in American money.

By Mr. Arthurs:

Q. There was no surcharge at the time you refer to.—A. No.

By Mr. Donnelly:

Q. The freight rate is paid in American money?—A. Well now, the surcharge takes into consideration American money. At the time we were giving evidence there was no surcharge. I just want to give the tariff records so you can look at the authority.

By Mr. Donnelly:

Q. I want to ask you one or two questions. Can you tell the committee what per cent of the cost of your gasoline is allocated to crude? What per cent of the cost of your gasoline do you allocate to crude, the cost of your gasoline when it is manufactured or made in the refinery, what per cent of the cost do you allocate to the cost of your crude?—A. Well—

Q. We had it from the other companies— —A. I doubt if you can get the answer to that question, Dr. Donnelly, because I cannot answer the question. Our costs are not worked out that way.

Q. I understand that you take the— —A. A combination of the sales realization and the purpose method, but we do not allocate any costs to crude. You mean to gasoline?

Q. I mean to say, you have the costs laid down in Montreal for any of your other refineries, and a certain percentage of that gasoline is charged up to crude,—what percentage?—A. We do not work that way, I am sorry I cannot answer that question. We charge the crude in.

Q. That is what I want to know. How much of the crude do you charge in?—A. The whole of the crude is charged against the operation.

Q. I know the whole operation.—A. Then we allocate the different charges against the refined products, not against the crude.

Q. That is what I want to know.—A. I have not the information here to give you, doctor.

Q. You get a certain amount of crude in your factory, and out of that crude you get a certain amount of naphtha, a certain amount of fuel oil, a certain amount of gasoline. Now, a certain amount of this cost is allocated, that is what you just said, to gasoline.—A. No, we work the other way around. All the crude is charged against the operation.

Q. Surely.—A. Those operating costs are charged against the refined products, not against the crude oil.

Q. I mean, against the gasoline.—A. I cannot give you that figure.

Q. Against the cost of gasoline. How much of the cost of— —A. I cannot give it. I have not it with me, so I cannot give it.

Q. I would like to have it, because I have it from the other companies.—A. I am sure the auditors will be able to give it to you, because I have an analysis of our costs in our financial statement.

Q. Can you tell the committee what your bill for labour was in the years 1930 and 1931 at your refinery?—A. I have not got that, Dr. Donnelly; the auditors must have it.

Q. Have you amount of labour that you allocate to gasoline in the same way?—A. No, I have not got that. The auditors no doubt will have it.

Q. I would like to have that for those two years.—A. I would suggest, Dr. Donnelly, that you ask the auditors, because they have a complete statement of our affairs. No doubt they will be able to answer that or get you the information.

Mr. Stanley: I think we should extend to Mr. Wales the thanks of the committee for the evidence given this morning. I certainly appreciate it. I appreciate the evidence, because of some of the absurdities that were given by Mr. Coplan the other day.

The Chairman: Before I call on the auditors, I should like to refer to a communication from Mr. McCloskey of the Imperial Oil Company enclosing a memorandum showing the average monthly well price of 36 gravity Mid-Continent crude, Illinois crude, and Canadian crude for the years 1930 and 1931 as requested on page 89 of the Banking and Commerce Committee's Minutes of Proceedings and Evidence No. 3, reference, price of gasoline. I hand this to the clerk to be filed.

Mr. BOTHWELL: Are those actual purchases made by the Imperial Oil, or are they just taken from the handbook?

The CHAIRMAN: The statement says crude oil prices, 1930 and 1931, 36 gravity, Mid-Continent, Illinois against Canadian.

Mr. BOTHWELL. Is that an actual purchase, the actual price they pay?

The CHAIRMAN: It does not say that.

Mr. STANLEY: Those are the prices paid.

Mr. DONNELLY: Not necessarily because we have been told there were cut prices. These prices were taken from the handbook. We can get those, anyway. We want the actual prices they paid.

The CHAIRMAN: I have another communication from the Imperial Oil Company as follows:—

> Referring to the request regarding the price of sulphuric acid at our Ioco plant, as referred to by Mr. Bothwell on page 179 of the minutes of Proceedings and Evidence, Banking and Commerce Committee reference price of gasoline.
>
> The cost of sulphuric acid we purchase from the Consolidated Mining and Smelting Company is $10 per ton, in tank cars, f.o.b., Tadanac. The freight rate to Ioco, British Columbia, is $10 per ton, making the laid down cost $20 per ton at Ioco.

Mr. BOTHWELL: Page 179?

The CHAIRMAN: Yes, page 179. You asked for that information, Mr. Bothwell?

Mr. BOTHWELL: Yes.

The CHAIRMAN: There is filed with the Clerk for reference a Summary of the Evidence given by and the Submissions of Counsel to the Petroleum Investigating Committee of the Saskatchewan Legislature.

Mr. DONNELLY: Do you think, Mr. Chairman, it would be wise to go over that report of the Gasoline Inquiry held in Saskatchewan?

The CHAIRMAN: I don't think it would be at this moment.

Mr. DONNELLY: Probably some other time?

The meeting adjourned.

APPENDIX

(Filed by Imperial Oil Ltd.)

CRUDE OIL PRICES: 1930 AND 1931

—	Mid-Continent (36 Grav.)		Illinois		Canadian	
	1930	1931	1930	1931	1930	1931
January	$1 45	$0 95	$1 75	$1 30	$2 20	$1 95
February	1 33	0 95	1 68	1 30	2 13	1 95
March	1 22	0 70	1 60	0 91	2 05	1 78
April	1 26	0 59	1 63	0 80	2 08	1 75
May	1 29	0 59	1 65	0 80	2 10	1 75
June	1 29	0 35	1 65	0 56	2 08	1 75
July	1 29	0 23	1 65	0 45	1 95	1 65
August	1 29	0 46	1 65	0 62	1 95	1 76
September	1 29	0 62	1 65	0 80	1 95	1 80
October	1 24	0 62	1 61	0 80	1 89	1 80
November	0 95	0 76	1 30	0 94	1 88	1 89
December	0 95	0 77	1 30	0 95	1 95	1 90

(Filed by Imperial Oil)

MEMORANDUM *RE* IMPERIAL OIL LIMITED EXHIBIT No. 9 EVIDENCE No. 3

In comparing the printed statement, known as Exhibit Number 9, in Evidence Number 3, with the original copy, the following errors in printing have been noted. The errors listed hereunder appear in sequence, as numbered, column after column, with the exception of (15) which number merely indicates several instances where figures while correct are out of alignment with items to which they refer.

(1) Gasoline—Gross Value of Sales—reads $54,680,288.05, should read $54,680,228.05;
(2) Gasoline—Freight, Refinery to Marketing Stations, reads $9,947,586.59, should read $5,947,586.59;
(3) Refined Oil—Sales Tax reads $37,417.89, should read $37,417.82;
(4) Total Cost of Packages—Reads $815,500.68, should read $815,300.68;
(5) Total Contingency Reserve—Reads $1,250,000,000, should read $1,250,000;
(6) Fuel Oil—Net Realization reads $15,961,276.18, should read $15,961,-267.18;
(7) Gasoline—Dominion Income Tax reads $564,897.72, should read $364,897.72;
(8) Refined Oil—Total Expenses reads $1,606,462.27, should read $1,606,-482.27;
(9) Wax—Cost per Gallon, Total Expenses, reads 45·97c, should read 43·97c;
(10) Gasoline—Jobbers net loss of $66,709.82 should be a red figure; (this was due to a red figure photographing as black);
(11) Refined Oil—Jobbers net profit reads $48,154.36, should read $48,154.38;
(12) Coke—Net profit reads $51,052.20, should read $51,052.30;
(13) Gasoline—Jobbers loss per gallon of 0·04c should be a red figure; (this was due to a red figure photographing as black);
(14) Lubricating Oils—Cost items starting at "Total Cost of Crude Oil and Other Material" right through to "Net Earnings" should be below ruled line instead of above;
(15) Printing out of line in various columns.

(Filed by Witness J. A. Wales)

TAGLIABUE MANUAL FOR INSPECTORS OF PETROLEUM

Pages 44-46

III—Standard Abridged Volume Correction Table for Petroleum Oils

A.S.T.M. Serial Designation: D 206-25

Approved by the Bureau of Standards, the Bureau of Mines, and the American Petroleum Institute. Published as a standard of the American Society for Testing Materials, under the fixed designation D 206; the final number indicates the year of original adoption as standard or, in the case of revision, the year of last revision.

Adopted, 1925.

Observed Temperature deg. Fahr.	Volume at 60°F. Occupied by Unit Volume at Indicated Temperature		Observed Temperature deg. Fahr.	Volume at 60°F. Occupied by Unit Volume at Indicated Temperature	
	Group III 51·0 to 63·9° A.P.I. at 60°F.	Group IV 64·0 to 78·9° A.P.I. at 60°F.		Group III 51·0 to 63·9° A.P.I. at 60°F.	Group IV 64·0 to 78·9° A.P.I. at 60°F.
0	1·0361	1·0419	40	1·0121	1·0141
1	1·0355	1·0412	41	1·0115	1·0134
2	1·0349	1·0405	42	1·0109	1·0127
3	1·0343	1·0398	43	1.0103	1·0120
4	1·0337	1·0391	44	1·0097	1·0113
5	1·0331	1·0384	45	1·0091	1·0106
6	1·0325	1·0377	46	1·0085	1·0099
7	1·0319	1·0370	47	1·0079	1·0092
8	1·0313	1·0364	48	1·0072	1·0084
9	1·0307	1·0357	49	1·0066	1·0077
10	1·0301	1·0350	50	1·0060	1·0070
11	1·0295	1·0343	51	1·0054	1·0063
12	1·0289	1·0336	52	1·0048	1·0056
13	1·0283	1·0329	53	1·0042	1·0049
14	1·0277	1·0322	54	1·0036	1·0042
15	1·0271	1·0315	55	1·0030	1·0035
16	1·0265	1·0308	56	1·0024	1·0028
17	1·0259	1·0301	57	1·0018	1·0021
18	1·0253	1·0294	58	1·0012	1·0014
19	1·0247	1·0287	59	1·0006	1·0007
20	1·0241	1·0280	60	1·0000	1·0000
21	1·0235	1·0273	61	0·9994	0·9993
22	1·0229	1·0266	62	0·9988	0·9987
23	1·0223	1·0260	63	0·9982	0·9979
24	1·0217	1·0253	64	0·9976	0·9972
25	1·0211	1·0246	65	0·9970	0·9965
26	1·0205	1·0239	66	0·9964	0·9958
27	1·0199	1·0232	67	0·9957	0·9951
28	1·0193	1·0225	68	0·9951	0·9943
29	1·0187	1·0218	69	0·9945	0·9936
30	1·0181	1·0211	70	0·9939	0·9929
31	1·0175	1·0204	71	0·9933	0·9922
32	1·0169	1·0197	72	0·9927	0·9915
33	1·0163	1·0190	73	0·9921	0·9908
34	1·0157	1·0183	74	0·9915	0·9901
35	1·0151	1·0176	75	0·9909	0·9894
36	1·0145	1·0169	76	0·9903	0·9887
37	1·0139	1·0162	77	0·9897	0·9880
38	1·0133	1·0155	78	0·9891	0·9872
39	1·0127	1·0184	79	0·9885	0·9865

TAGLIABUE MANUAL FOR INSPECTORS OF PETROLEUM—Continued

Observed Temperature deg. Fahr.	Volume at 60°F. Occupied by Unit Volume at Indicated Temperature		Observed Temperature deg. Fahr.	Volume at 60°F. Occupied by Unit Volume at Indicated Temperature	
	Group III 51·0 to 63·9° A.P.I. at 60°F.	Group IV 64·0 to 78·9° A.P.I. at 60°F.		Group III 51·0 to 63·9° A.P.I. at 60°F.	Group IV 64·0 to 78·9° A.P.I. at 60°F.
80	0·9879	0·9858	100	0·9757	
81	0·9873	0·9851	101	0·9751	
82	0·9867	0·9844	102	0·9745	
83	0·9860	0·9837	103	0·9738	
84	0·9854	0·9830	104	0·9732	
85	0·9848	0·9823	105	0·9726	
86	0·9842	0·9816	106	0·9720	
87	0·9836	0·9809	107	0·9714	
88	0·9830	0·9802	108	0·9708	
89	0·9824	0·9795	109	0·9702	
90	0·9818	0·9788	110	0·9696	
91	0·9812		111	0·9690	
92	0·9806		112	0·9684	
93	0·9800		113	0·9678	
94	0·9794		114	0·9672	
95	0·9788		115	0·9666	
96	0·9782		116	0·9660	
97	0·9776		117	0·9654	
98	0·9769		118	0·9647	
99	0·9763		119	0·9641	

(Filed by Witness J. A. Wales)

McCOLL-FRONTENAC OIL CO. LIMITED

MONTREAL, April 25th, 1932.

Mr. R. C. MATTHEWS,
Chairman of Select Standing
Committee on Banking and Commerce,
House of Commons, Ottawa, Ontario.

DEAR SIR,—In reading the minutes of proceedings and evidence of the Select Standing Committee on Banking and Commerce re Price of Gasoline of date Tuesday, April the 19th, 1932, there appeared to be some doubt in the minds of the witnesses and the Committee (see page 393) as regards the correctness of the freight rates from Bradford, Pa., and Toronto, Ontario, to Ottawa, Ontario, as given in my testimony of Thursday, March 31, 1932.

With your kind permission, I would like to give the Tariff References proving the correctness of my statements, attached hereto as "Schedule A." You will note that the rate per cwt. from Bradford, Pa. to Ottawa, Ontario, 36½c. and from Toronto, Ontario, to Ottawa, Ontario, 37½c. You will also note that the Bradford rate is based on a weight of 6·6 lbs. per U.S. gallon, equal to 7·92 lbs. per Imperial gallon, while the Toronto rate is based on a weight of 8 lbs. per Imperial gallon and, from the calculations given in "Schedule A," that the rate per Imperial gallon from Bradford, Pa., to Ottawa, Ontario, is 2·89c. and from Toronto, Ontario, to Ottawa, Ontario, per Imperial gallon is 3·00c.

Yours very truly,

J. A. WALES,
Vice-President.

April 21st, 1932.

SCHEDULE "A"

GASOLINE IN TANK CARS TO OTTAWA, ONT.

Ex:	Rate per 100 lbs.	Rate per Imp. gal.	Route via	Tariff Reference
	c.	c.		
Bradford, Pa. (B.R. & P.R.—B. & O.)	36½	2·89	Buffalo, N.Y.	B.R. & P. No. A-5749 I.C.C.-8305
Toronto, Ont. (C.P.R.)	37½	3·00	C.P.R.	C.P.R. No. E-2879 (E-2180) C.R.C. No. E-3220

Rate from Bradford, Pa. to Ottawa, Ont. based on weight 6·6 lbs. per U.S. Gal. = 7·92 lbs. per Imp. Gal.

$$\text{Rate per Imperial Gal.} = \frac{36\cdot5 \times 7\cdot92}{100} = \underline{\underline{2\cdot89\text{c.}}}$$

Rate from Toronto, Ont. to Ottawa, Ont. based on weight 8·0 lbs. per Imp. Gal.

$$\text{Rate per Imperial Gal.} = \frac{37\cdot5 \times 8\cdot00}{100} = \underline{\underline{3\cdot00\text{c.}}}$$

McCOLL-FRONTENAC OIL CO. LIMITED

MONTREAL, April 27th, 1932.

Mr. R. C. MATTHEWS,
Chairman of Select Standing
Committee on Banking and Commerce,
House of Commons, Ottawa, Canada.

DEAR SIR,—In reading the minutes of proceedings and evidence of the Select Standing Committee on Banking and Commerce re Price of Gasoline of date Tuesday, April the 19th, 1932, there appeared in Mr. Coplan's evidence on pages 402 and 403 allegations regarding the correctness of the quantities of gasoline invoiced the Super Service Gas & Oil Company at Ottawa which we feel call for a reply from us.

All shipments of gasoline in tank car by our Company to Super Service Gas & Oil Company were corrected as to quantity to 60° F., using the correction tables approved by the American Petroleum Institute and the United States Bureau of Mines. All tank car sales of gasoline by us are made subject to the understanding that quantities will be corrected to 60° F., which is a practice accepted in the Industry throughout the world. In addition we would refer you to the Canadian Customs Tariff Act, Revised Statutes of Canada, 1927, Chapter 44, Schedule A (as amended) Tariff Items 267 to 272, which provides that all petroleum products entered for customs duty should show their specific gravities and volumes corrected to 60° F. All purchases of petroleum products made by us are on the basis of volumes corrected to 60° F.

We are attaching herewith a statement showing all shipments of gasoline made by McColl-Frontenac Oil Co. Limited to Super Service Gas & Oil Company during the period May 1st, 1931, to March 31st, 1932. From this statement you will note that on a total of 39 cars shipped allowances were made to the Super Service Gas & Oil Company on 27 cars, such allowances totalling 2,278 gallons, or an average of 84·4 gallons per car. These allowances were made because quantities in the cars were measured at a temperature exceeding 60° F. You will also note that quantities were added on 12 cars, amounting to a total of 1,010 gallons, or an average of 84·2 gallons per car. These additions were made because the quantities were measured at temperatures lower than 60° F. You will note, however, that over the whole period allowances for temperatures above 60° F. given to the Super Service Oil & Gas Company were 1,268 gallons in excess of additions charged for temperatures below 60° F., which is, in our opinion, contrary to the evidence given by Mr. Coplan. We would refer you particularly to the top of page 401, as follows:—

By Mr. Bothwell:

Q. I am taking the same time of the year, practically. On September 14 McColl-Frontenac gave you no credit for loss in temperature?—A. No.

Q. The Sinclair Refining Company gave you credit of 81 gallons on the 12th September?—A. Yes.

Q. On the 12th September they gave you a credit of 31 gallons on another car, and on the same day they gave you credit of 82 gallons on another, and then we come to McColl-Frontenac. On September 14 there is no credit at all.—A. No credit at all.

And again at the bottom of page 402, as follows:—

By the Chairman:

Q. Is there a unit basis for that at each of the refineries?—A. There is. It is done right here. In the summer time, going back, you know, to this file, the Sinclair deducts, you know, for higher temperature and at the same time I bought from the McColl refinery and they did not give me a single gallon.

Q. At the same temperature?—A. The same time of the year.

Q. At the same temperature?—A. Approximately the same.

You will note from the attached sheet that on the two cars shipped to Super Service Gas & Oil Company on September the 14th, 1931, a credit of 96 gallons was given on each car. You will also note that a credit was given on each and every car of the 27 cars shipped during the months of May, June, July, August and September.

The Super Service Gas & Oil Company have received from McColl-Frontenac Oil Co. Limited a loading report, in addition to the commercial invoice, which loading report gives detailed information as to the temperature at which the car was measured, correction to 60° F. and net gallons charged for, such net gallons checking the number of gallons charged on our commercial invoice. This loading report also bears the seal number used in sealing the tank car, so that Super Service Gas & Oil Company will know that the car has not been opened if the seal bearing this number be intact.

I would appreciate very much your placing this information before members of the Committee and, should you consider it necessary to recall the witness, we would appreciate your advising us, so that we may have the necessary officer of our Company present.

Yours very truly,

J. IRWIN,
President.

SHIPMENTS OF GASOLINE TO SUPER SERVICE GAS & OIL CO., HULL, QUE. FROM MAY 27TH, 1931 TO MARCH 31ST, 1932

Date	Car No.	Capacity (Gallons)	Temperature	Temperature Add	Allowance Deduct	Net Gallons
1931						
May 27..	M.F.L.X. 782	8,477	66	....	30	8,447
" 28..	M.F.L.X. 608	8,457	66	....	30	8,427
June 4..	M.F.L.X. 711	8,460	72	....	60	8,400
" 6..	M.F.L.X. 608	8,457	74	....	71	8,386
" 12..	M.F.L.X. 788	8,475	85	....	127	8,348
" 17..	M.F.L.X. 778	8,476	72	....	61	8,413
" 26..	M.F.L.X. 707	8,456	77	....	86	8,370
" 29..	M.F.L.X. 778	8,476	80	....	102	8,374
July 3..	M.F.L.X. 710	8,451	80	....	101	8,350
" 6..	M.F.L.X. 608	8,457	78	....	91	8,366
" 9..	M.F.L.X. 790	8,475	84	....	122	8,353
" 13..	M.F.L.X. 774	8,476	73	....	66	8,410
" 15..	M.F.L.X. 773	8,475	75	....	76	8,399
" 21..	M.F.L.X. 609	8,454	79	....	96	8,358
" 25..	P.S.P.X. 2213	6,743	73	....	53	6,690
" 31..	M.F.L.X. 604	8,443	75	....	76	8,367
Aug. 22..	M.F.L.X. 784	8,475	80	....	102	8,373
" 26..	M.F.L.X. 785	8,476	77	....	86	8,390
" 29..	M.F.L.X. 612	8,454	85	....	127	8,327
Sept. 3..	M.F.L.X. 605	8,451	73	....	66	8,385
" 5..	M.F.L.X. 777	8,477	74	....	71	8,406
" 15..	M.F.L.X. 782	8,477	80	....	102	8,375
" 12..	M.F.L.X. 786	8,476	82	....	112	8,364
" 14..	M.F.L.X. 707	8,456	79	....	96	8,360
" 14..	M.F.L.X. 788	8,475	79	....	96	8,379
" 15..	M.F.L.X. 789	8,475	77	....	86	8,389
" 15..	M.F.L.X. 773	8,475	77	....	86	8,389
Oct. 26..	M.F.L.X. 171	8,350	58	10	....	8,360
" 29..	M.F.L.X. 756	8,473	54	31	....	8,504
Nov. 2..	M.F.L.X. 783	8,476	58	10	....	8,486
" 11..	M.F.L.X. 775	8,477	50	51	....	8,528
" 11..	M.F.L.X. 756	8,473	47	66	....	8,539
Dec. 30..	M.F.L.X. 773	8,475	39	108	....	8,583
1932						
Jan. 6..	M.F.L.X. 777	8,477	36	123	....	8,600
" 14..	M.F.L.X. 777	8,477	36	122	....	8,599
" 21..	M.F.L.X. 771	8,477	38	113	....	8,590
Feb. 5..	M.F.L.X. 778	8,482	35	127	....	8,609
" 15..	M.B.L.X. 201	6,743	34	106	....	6,849
Mar. 1..	M.F.L.X. 756	8,473	32	143	....	8,616
		326,728	....	1,010	2,278	325,460

SESSION 1932

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

WEDNESDAY, MAY 4, 1932

No. 18

Reference.—Price of Gasoline

WITNESS:

Mr. O. A. Matthews, of George A. Touche & Co., Auditors

Appendix,—(a) Statements filed by McColl-Frontenac Oil Co., Ltd.
(b) Statement filed by British American Oil Co., Ltd.

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1932

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,

WEDNESDAY, May 4, 1932.

The meeting came to order at 3.30 p.m., Mr. Matthews in the Chair.

Members present: Messrs. Arthurs, Baker, Bothwell, Donnelly, Hackett, Hanson, Matthews, McPhee, Peck, Perley, Ralston, Smoke, Stanley, Spencer, Willis.

Statements forwarded by the McColl-Frontenac Oil Co. Ltd., and the British American Oil Co. Ltd., were ordered filed and printed.

The chairman informed the meeting that Mr. Matthews, who had at the previous meeting presented the auditors' report was again in attendance to submit to examination.

Mr. Stanley, seconded by Mr. Hanson, moved that the auditors' report be adopted.

Discussion followed and Mr. Matthews was recalled and examined. The witness filed certain documents supplementary to the report.

The motion being then put, Mr. Hackett moved in amendment that the word "accepted" be substituted for the word "adopted".

The motion, as amended, carried.

The meeting adjourned sine die.

A. A. FRASER,
Clerk of the Committee.

MINUTES OF EVIDENCE

House of Commons,

Wednesday, May 4, 1932.

The Select Standing Committee on Banking and Commerce met at 3.30 o'clock, Mr. Matthews presiding.

The Chairman: Gentlemen, the Clerk has received the statements that were called for from McColl-Frontenac Oil Company Limited, and British American Oil Company Limited; these statements are summaries of operations, and have been presented by these companies for your information. It is just a question whether or not we should file these statements.

Mr. Donnelly: I move that they be filed and printed in the report.

The Chairman: I would point out those are the companies' statements. If the Committee is willing to accept them and put them in the printed report, all right.

Mr. Baker: Should there not be only sworn evidence in the report? These are not sworn.

The Chairman: These are the statements that were sent by the company.

Mr. Donnelly: They can be accepted as such.

The Chairman: Very good. Yesterday Mr. Matthews of George A. Touche and Company presented his report. The reading of that report was completed about the time of adjournment of the Committee, and we had no opportunity to ask questions. We have met this afternoon for the purpose of questioning him on his report. I think first of all we should have a motion that the report be adopted, and if such a motion is made, I shall put it to the Committee.

Mr. Bothwell: I do not think the report should be adopted until we have had an opportunity of discussing it.

The Chairman: I was going to say discussion would take place on the motion.

Mr. Stanley: I move that the report be adopted.

Mr. Hanson: And the report be read into the record and printed. I second the motion.

Mr. Bothwell: Before that motion is put, Mr. Chairman, I think we should have an opportunity to discuss the report and cross-examine the witnesses on it.

The Chairman: That is the object of the meeting.

Mr. Bothwell: In the first place I would like to ask this. In the Minutes and Proceedings, Mr. Fraser, I find the following:—

> For full minutes see printed minutes of this date in No. 17 Minutes and Proceedings and Evidence.

Does that just refer to the evidence in addition to the report that is published here in No. 16. That refers to the evidence given by Mr. Wales.

Mr. Fraser: Yes. I segregated the different parts to the Proceedings and Evidence in order to keep the report separate.

Mr. Bothwell: I want to be clear on this. There are no schedules or anything filed with this report to be brought out in the other report.

Mr. Fraser: No. 17, which will follow, will contain the evidence of Mr. Wales only, and exhibits filed by him, and by the Imperial Oil Company.

Mr. Bothwell: Not exhibits filed by Mr. Matthews.

Mr. Fraser: No.

Mr. Bothwell: In connection with the report, Mr. Chairman, I should like to submit to this Committee first of all—

Mr. Stanley: Did I understand, Mr. Chairman, there would be no exhibits filed in connection with this meeting?

The Chairman: No, we were referring to yesterday's meeting.

Mr. Bothwell: It strikes me, Mr. Chairman, that in the report given by Mr. Matthews yesterday he endeavoured to usurp the powers of this Committee, instead of giving us the facts that we thought he was sent out to obtain. Now, there are a lot of statements in his report of his opinion as to what he found, without giving us the facts that we expected he was going to find; it seems to me that right now what we have to do is to go into all the details by an examination of Mr. Matthews in order to find out on what and how he makes a report such as he has made here. We are not able to draw any conclusions ourselves at all, apparently, from the report that is filed. We are just simply supposed to take that as being his findings, and that those are facts.

Mr. Stanley: They are facts.

Mr. Hanson: The Committee can deal with the auditor's report, and it does not preclude Mr. Bothwell from cross-examining Mr. Matthews on findings with which he disagrees.

The Chairman: As I said before, that is the object of this meeting.

Mr. Bothwell: We understood, of course, the auditors were going to obtain statements of those companies, their annual statements and more or less analyse them, and that they were going to obtain for us, statements of operations in refineries, the cost of the various operations and that sort of thing. We have nothing in that connection placed before us.

The Chairman: Will you kindly ask Mr. Matthews what you would like to know in regard to that.

O. A. Matthews, recalled.

By Mr. Bothwell:

Q. On page 490 of this report, Mr. Matthews, in the third paragraph you say:—

> Now, that is the picture I wish to lay before this committee: that the Imperial Oil—whether we like it or not—are bringing into this country money made in world trading outside of Canada—and certainly from one of those books that I read it would appear that they have just built up a tremendous surplus in this country out of operations. Gentlemen, that is entirely false. In 1930 the return to the Imperial Oil on their investments at cost, which they could very easily have written up, was six and a quarter per cent on the marketing and refining over this country.

In that statement I presume you refer to the interests of the Imperial Oil in their subsidiary companies operating in different parts of the world?—A. Yes.

Q. In your investigation did you find what percentage of the annual profits of the Imperial Oil are brought in from outside?—A. Yes.

Q. How much?—A. I do not know that I should give that. We have the information but I do not know whether I should give it.

Mr. Hanson: I see no objection at all to answering that question unless the Imperial Oil, for reasons of their own, which I do not understand they will—

The WITNESS: I do not think they would; we are perfectly prepared to give it.

Q. They have given us certain data on the point already.—A. In 1930 the relationship is in proportion to the figure of seven million odd on the exhibit as against nineteen million.

By Mr. Bothwell:

Q. That is nineteen million from outside?—A. No, nineteen millions altogether.

Q. Nineteen millions altogether?—A. Of which in Canada the figure was shown on exhibit No. 3 $7,215,291.62. That is the amount of money that was made in Canada.

By Mr. Hanson:

Q. Out of a total of nineteen millions?—A. Yes.

By Mr. Bothwell:

Q. So that when the Imperial Oil representative told us that sixty per cent of their dividends were made outside of Canada, that statement is hardly correct.

Mr. HANSON: They were too conservative on that.

The WITNESS: I cannot answer for the company's evidence. I am giving you the facts, Mr. Bothwell.

By Mr. Bothwell:

Q. You continue there and you say in 1930 the return to the Imperial Oil on their investments at cost which they could very easily have written up, was 6¼ per cent on the marketing and refining over this country. I wish you would explain that statement, how you arrive at it.—A. Yes. Taking the balance sheet of the Imperial Oil Limited, as a whole, including investments in affiliated companies, that was broken down so as to show the net assets applicable to their business in Canada. That is the property value and the value of the working capital employed in refining and marketing in Canada; and against that was applied the profits that they made on that, bearing in mind that the figure so arrived at includes the reinvestment of profits on marketing and refining investment left in the business up to date.

Q. I should like you to give us the figures that you used in order to arrive at that 6¼ per cent. What is included in the assets in Canada?—A. I can give you that quite easily. To what extent do you want the details? It is the value first of fixed properties.

Q. I want all the details showing how you arrived at that figure?—A. We could file a schedule on that. We can supply a schedule—a detailed schedule on it, or we can tell you now and you can have the schedule for verification along with other things we had here.

Q. If the schedule is put in it would be best to have it filed. In arriving at that 6¼ per cent I think you said that you figured that on the earnings of the company which have been left in the business or reinvested?—A. Reinvested in the marketing and refinery properties in Canada.

Mr. HANSON: Plus capital stock already in?

The WITNESS: Yes. In other words a statement of assets and liabilities of the company in Canada on its refining and marketing.

By Mr. Bothwell:

Q. In arriving at those assets, I presume you included their physical assets?—A. At book cost.

Q. That is the refineries and the service stations and so on?—A. Less depreciation. So the assets are depreciated.

Q. And what is the amount of capital?—A. That cannot be determined because you are simply taking the assets and the liabilities as they exist against the marketing and refining. The capital is included in the result.

Q. I want to know what you figure this $6\frac{1}{4}$ per cent on? If you figured it on all of the fixed assets what else was included?—A. On the difference between the assets that they own and the liabilities to the public. The rest is obviously capital and surplus, is it not?

Mr. SPENCER: What depreciation do you allow on the service stations?

The WITNESS: We have the rates which can be filed for all depreciation rates, three-quarters of a million dollars on the Dominion Income Tax. We will keep a list of all these schedules.

Mr. HANSON: Is the depreciation charged by the company as large as might be allowed by the Dominion Income Tax grants?

The WITNESS: No. It is within three-quarters of a million dollars in 1930.

By Mr. Bothwell:

Q. In other words, they have not charged for all the depreciation that the Income Tax grant would have allowed them?—A. No, but if you want any other details on depreciation rates we will be glad to give them to you.

Q. It seems to me that you ought to be able to give those figures. That will show what is included in that capital structure upon which you figured?—A. I have just told you, Mr. Bothwell, that it is the properties and the refineries.

Q. Enumerate them and give us the amount?—A. On the assets side: Inventories, refineries and merchandizing assets and accounts of the public. On the liabilities side: liabilities to the public in the way of accounts payable and the balance is capital and surplus, roughly. We will give you the full particulars of it.

Q. I might say, Mr. Chairman, that I think this should be read now because otherwise there might be questions arising out of the answers that will be given out of this report when we have an opportunity of studying it. We only want totals?—A. I have given you that.

Q. I do not want the sum total; I want the different totals?—A. How far do you want me to read this now?

Q. I do not know what you are reading?—A. The point is this that we have got assets divided into individual refineries. Now, do you want those?

Q. Give us the refineries altogether.

Mr. HANSON: He can give you that. Give it to him under the different headings that you have here and if Mr. Bothwell wants that split up you can split it up for him.

The WITNESS: To get the sub-totals of these in this order we would have to get the details we have worked out back to the individual figures.

Mr. HANSON: Perhaps you would show it to Mr. Bothwell and he can tell you what he wants. That would be the fair thing to do.

The WITNESS: This investigation stops at the price of gasoline in Canada.

Mr. BOTHWELL: As far as the auditor's instructions were concerned, the investigation did speak of the sale of gasoline in Canada.

The WITNESS: Will you please read the order; will you read the instructions to the auditors?

Mr. DONNELLY: Page 470 of the report.

Mr. BOTHWELL: "The relative wholesale price of gasoline and other commodities refined from crude in relation to costs of production at the Sarnia and Halifax refineries."

That is one of them.

The WITNESS: Yes, right.

Mr. BOTHWELL: Now, so far as the refineries are concerned. The instructions of the sub-committee were I believe, insofar as those instructions dealing with the refineries themselves were concerned, that the auditors were instructed to obtain financial statements of the different oil companies.

The WITNESS: Will you read what the instructions to us were?

Mr. BOTHWELL: I am asking the Chairman. He is a member of the sub-committee. Is it not the fact?

The CHAIRMAN: No. I do not think so.

Mr. BOTHWELL: You understood that the auditors were to obtain nothing in connection with the financial set-up of these different companies?

The CHAIRMAN: That is what was given in evidence.

Mr. DONNELLY: At page 471 I read as follows:—

> That simultaneously with this investigation by the auditors into the aforementioned cost and selling factors of Imperial Oil Limited, they secure from the British America Oil Company, limited, and from the McColl Frontenac Company, limited, statements in such form as will render practicable a comparison of the relative costs and selling prices of the three corporations, thus offering means of disclosing any major variations without entailing the additional expense of investigating the smaller oil companies operating in Canada.

Mr. BOTHWELL: On innumerable occasions during the taking of evidence the statement was made by witnesses when we were talking about the financial set-up of these companies that the auditors would have all that information.

The CHAIRMAN: A set-up was given, I think, by all the companies themselves.

Mr. BOTHWELL: The auditor was to check it, as I understood the duties of the auditor. He was to check the statements that had been given to us by representatives of the different companies.

The CHAIRMAN: The clerk informs me that after these instructions were passed by the Committee he wrote to the auditors asking them to proceed to secure the information asked for by the report of the sub-committee to this Committee and accepted by this Committee, and that those were the only instructions they received.

Mr. BOTHWELL: It was clearly understood at the time that the sub-committee report was adopted here that that did not in any way limit the inquiry, and different matters were referred to during the taking of evidence as to the information in connection with the financial statements of the different companies.

The CHAIRMAN: Were not all the companies required to give to the Committee under oath their financial set-up?

Hon. Mr. RALSTON: That is so; but as I understood, the auditors would check these things, and, as a matter of fact, Mr. Matthews, apparently, did so as shown in the conclusion. I will refer to paragraph A of the conclusion:—

> In other words the financing of Imperial Oil Limited has been effected through the sale of capital stock and the investment of a proportion of surplus earnings in extensions of plant and equipment facilities.

Now, on page 490 he says:

> I wish to emphasize that fact to the Committee, for your information. In contrast with the figures shown in evidence—as if the company had made tremendous profits on the splitting of stock and stock dividends on their marketing and refining in Canada—altogether, taking in 1930

> the net assets of the Imperial Oil in Canada with their properties at cost, not appraisal, with their investment in International Petroleum at one-third of the present depressed market values, they show a return of six and a quarter per cent.

Of course, that paragraph could not have been written without the full examination of the operations which had been detailed in evidence as to the various splits of stock and declarations of stock dividends.

The WITNESS: You are dealing with the Imperial Oil?

Mr. DONNELLY: On page 237, for example, Mr. Bothwell asked of the McColl-Frontenac company:—

> Q. What amount is written off for depreciation in 1930?
>
> Mr. BROOKS: I cannot tell you from the figures I have here.
>
> Mr. GEOFFRION: On the stations?—A. Yes sir.
>
> Mr. BOTHWELL: Yes, on the investment.
>
> The WITNESS: The auditors, of course, will show that when they come here.
>
> Mr. BOTHWELL: I hope the auditor is getting all this information we are asking for.
>
> Mr. GEOFFRION: If he wants any more he can come again.
>
> Mr. IRWIN: He spent enough time down there, Mr. Bothwell.

So, we want to know what these are?

Hon. Mr. RALSTON: I think Mr. Matthews has that. He must have checked them somewhere.

The CHAIRMAN: You checked the Imperial Oil set-up, did you?

The WITNESS: Oh, yes.

By Mr. Bothwell:

Q. Did you check the McColl-Frontenac?—A. The original order on the 22nd of March to us provided that we simultaneously with the investigation into the Imperial Oil secure statements from the two other companies in order that they might be compared and if the comparison were reasonable and depending entirely upon the findings on the Imperial Oil the Committee would be in position to give further instructions. and this is the way the order read:—

> That simultaneously with this investigation by the auditors into the aforementioned cost and selling factors of the Imperial Oil, Limited, they secure from the British Empire Oil Company, Limited, and from the McColl-Frontenac Oil Company, Limited, statements in such form as will render practicable a comparison of the relative costs and selling prices of the three corporations, thus offering means of disclosing any major variations without entailing the additional expense of investigating the smaller oil companies operating in Canada.

Just following that paragraph, here is what we report:—

> In accordance with the aforementioned committee order we secured. . .

That is what our instructions were—

> . . .from the British American Oil Company, Limited, and McColl-Frontenac Oil Company the required operating statements in similar form to those prepared in connection with the investigation of the Imperial Oil Limited, but in view of our findings on the net profits and gasoline sales by Imperial Oil Limited we have deferred our examination of these statements pending further instructions from the committee.

In other words, we have carried out exactly what you have told us to do. We have secured the statements.

By Mr. Donnelly:

Q. These people say you have taken—.—A. Dr. Donnelly, just a moment. Any work that we did on the McColl-Frontenac, if you will recall, was done by us on original conferences with this committee before we undertook the Imperial Oil. Now, please, don't confuse the two.

Q. You have told us figures—.—A. In this sub-committee, Dr. Donelly, of which you were a member—

Q. Surely?—A. I said in your presence that we considered that the information we were securing was not leading you to the costs or the selling prices or the net profits of gasoline in Canada, and we suggested merely that in order to get at the root of the trouble that we take the company who is the leader in the industry and, according to the evidence, which set the prices, and the order that instructed us to go on to the Imperial Oil was made here in the meeting at which you were present. Now, there could not be any misunderstanding.

Q. That is all very well; but you have been reading this evidence, and these men here have said under oath—why do you not give us a report of this. Take, for example, page 225?—A. They might say anything.

Q. Not under oath. We do not expect people to come here under oath and say anything?—A. We did not undertake to read the evidence of this committee. We were given instructions to investigate the Imperial Oil and report to you. There is nothing in our instructions that made it preemptory on our part to read every bit of evidence, and we did not do so. Please do not introduce that.

Q. On page 225, I find the following:—

> *By Mr. Bothwell:*
>
> Q. What proportion of costs does your gasoline bear?—A. In what way?
>
> Q. In your refining operations?—A. Oh, I cannot answer that at the moment. The auditors have taken that information and they will be able to submit it. I have only got the gasoline cost figure, because I thought that was what I would be asked for.

Turn over to the next page, 226:—

> *By Mr. Donnelly:*
>
> Q. Can you tell the committee the percentage in your profits that you made from gasoline?—A. No, I cannot tell that; Mr. Brooks will be able to give that; also the auditors have that.

A. Dr. Donnelly, were you not present at these committee meetings? We have been carrying out your instructions.

By Hon. Mr. Ralston:

Q. All he asked you is did you check these costs, instructions or not?—A. We have secured, according to our instructions the information from the McColl-Frontenac and the British American, and we have prepared a summary of that, and we have handed it in.

Q. Did you do what they said you did at page 225?—A. Do you mean in this one particular case? Because it may be that several times they may have said that the auditors were doing things. That does not, surely—

Q. No. We are asking you?—A. What was it, Dr. Donnelly?

By Mr. Donnelly:

Q. At page 225, the question was asked:—

> Q. What proportion of costs does your gasoline bear?—A. In what way?

Q. In your refining operations?—A. Oh, I cannot answer that at the moment. The auditors have taken that information and they will be able to submit it. I have only got the gasoline figure, because I thought that was what I would be asked for.

A. Is this McColl-Frontenac?

Q. Yes, McColl-Frontenac?—A. What proportion does the gasoline bear to what?

Q. Well, it is a question asked by Mr. Bothwell?—A. What did it have to do with? The proportion of costs to what? Selling prices.

Mr. BOTHWELL: What proportion of of the total cost of refining does the gasoline that we obtain bear?

The WITNESS: I think we could secure that alright from our papers on the McColl-Frontenac, but we have not done it because we were not asked to do it.

Hon. Mr. RALSTON: It is not in the report.

By Mr. Bothwell:

Q. Have you the financial set-up of these different companies—the Imperial Oil, McColl-Frontenac and the British American?—A. We have prepared—we were not asked for the financial set-up—we have prepared here a summary showing the refining costs, marketing costs, total costs, average selling price, average net profit, divided between retail and wholesale, on all gasoline, applying to Sarnia, Halifax and all refineries. I submit this.

Mr. DONNELLY: That is the Imperial Oil?

The WITNESS: Yes. That is in strict accordance with the instructions of the committee. We supplement that by the submission of this detail, supporting the Halifax and Sarnia refineries.

Hon. Mr. RALSTON: I think we are at cross-purposes. Mr. Matthews says, "we were not asked to do so . . ." I think he understands and has no objection whatever to being asked here to produce and tell anything he has discovered in connection with the investigation, whether it happens to be within the terms of these written instructions or not.

The WITNESS: Of the McColl-Frontenac?

By Hon. Mr. Ralston:

Q. Of any of them?—A. Or the British American?

Q. Any of them?—A. We have not been into the British American.

Q. You have no objection?—A. No, not at all.

Q. You have no objection in giving us the benefit of the information you did get in connection with the examination of any of their books?—A. Absolutely.

Q. There is not anything to that?—A. But, when it is inferred that the committee gave us instructions and we did not carry them out—

Mr. DONNELLY: No, not at all. That is not the idea. Your instructions were given after you had been working for a week or so. What were you doing for the first week or so? I figured that this was the evidence you were getting?

The WITNESS: Yes. We will be glad to turn in our working papers on that —gladly.

Mr. DONNELLY: Surely that is all we are asking for.

The WITNESS: But there may be throughout this evidence—I do not know —statements by various witnesses that the auditors were getting all sorts of information of which we have no knowledge.

Mr. BOTHWELL: That may be. We will deal with that when we come to it.

The WITNESS: What we did with the McColl-Frontenac up to the time you gave us specific instructions in writing under date of the 22nd of March, we will turn in to this committee.

By Hon. Mr. Ralston:

Q. I would rather you would tell us about it?—A. I do not think—we have not got them with us. We will turn it in to the committee.

Q. I am differentiating between turning in the working papers and having a witness on the stand, because there are a whole lot of things in work papers that no-one wants to go through except the auditors?—A. We will give you the benefit of all the information we have. As a matter of fact, the summary we have turned in gives you a quick picture of the comparisons between the Imperial Oil, the McColl-Frontenac and the British American Oil.

By Mr. Donnelly:

Q. Did you notice in the evidence of McColl-Frontenac the last day they were here that there were half a dozen different things that they said the auditors had. Now, I would appreciate it if you would just look through and answer those questions if you can, and if you cannot, say so?—A. We would have to bring that file here and look over it and take it up item by item.

Q. I do not mean to do it now?—A. Surely, Dr. Donnelly, we will be glad to do it.

By Mr. Bothwell:

Q. Have you the financial set-up of the Imperial Oil?—A. What do you mean by the financial set-up?

Q. As I understand the duties of your firm, Mr. Matthews, they were that you were going to look into the financial standing of the company from its inception. There have been statements made as to what $100 invested in Imperial Oil a number of years ago would amount to now, as to the different various stock issues, as to the various bonuses that were issued and so on. I understood—I am not a member of the sub-committee—but I understood in any event that you were going to obtain that for this committee?—A. I would only refer you again, and you have them in front of you, to the instructions given to us. Could they be read? Those are our instructions, and we have worked as your auditors definitely under those instructions. We have only come in contact with other things as they helped to make the picture comparative. Now, for instance, the only reason in the world why we were interested in the net assets of the refineries and marketing in Canada is to be able to relate the cents per gallon on gasoline sales in Canada to consumers and jobbers to the amount of the net capital working in Canada to give you a picture on the one hand in dollars and then to show on the other that 1·01 cents—not exceeding 1·01 cents per gallon—compared, for instance, with what the jobbers got.

Q. That is the refining end. You are talking on one thing and I am talking on another?—A. I am still telling you that in arriving at the results according to our instructions we were told to deal with costs and selling prices which, in turn, would show net profit. That we have done on sales of gasoline to consumers; and the financial set-up of the company is not indicated anywhere in those instructions.

Q. From your investigation, whether you came across them incidentally or whether it is in the instructions, as I understand it—because I do not understand that all of your instructions were embodied in that particular memo arrived at by the sub-committee. The statement has been made, for instance, that $100 invested in Imperial Oil back in 1912, we will say, in 1930 drew in dividends $64. Can you tell us whether that is the correct statement?—A. I would again come back to this. You are, perhaps, dealing with three things in that. Now, you are asking me a question aside from our instructions, and we will give you what we believe on that. When you speak of Imperial Oil profits, you are embodying, are you not, the profits that they brought into the company from outside?

Q. I am speaking of the statement that has been made, and I want to know whether you could endorse that statement?—A. It has nothing to do with gasoline.

The CHAIRMAN: Where is the statement made?

Mr. BOTHWELL: It is current.

Hon. Mr. RALSTON: Mr. Matthews mentioned it in his report, and just after he has spoken of the split in stock and stock dividends and marketing and refining in Canada.

By the Chairman:

Q. You are speaking of the profit of the Imperial Oil company—the cost of gasoline in Canada?—A. Right.

Q. And the resolution in the House dealt with the statement that gasoline was selling at too high a price, and you are trying to discover that?—A. We broke down that structure which Mr. Bothwell is speaking of, so far as it applies to the refining and marketing of gasoline and other refining products in Canada, and the amount of money that they have made thereon during that period of fifty years. Outside of that it has nothing to do with the price of gasoline, ande we did not give it any consideration whatever.

By Mr. Bothwell:

Q. You could answer that question?—A. I can tell you that on the amount of gasoline and other refining products sold in Canada in 1930 the Imperial Oil made 6¼ per cent or thereabouts, roughly, on the net amount of their investment in Canada which include their properties, their inventories and their liabilities to the public, and the balance is a combination of capital stock paid for in cash plus profits reinvested in the business. Now, that is a direct answer to your question so far as gasoline and Canadian operations are concerned, and it is absolutely—you cannot introduce the question of South America or world trading in that question of gasoline in Canada.

The CHAIRMAN: You were going into the whole production from the beginning, tracing it through to the consumer to ascertain if Canadian consumers were paying too much for gasoline and if the profits of these companies were exorbitant.

Mr. BOTHWELL: Of course, we expect to go into that. I am asking the witness now in connection with these statements that have been made whether he is able to answer the question as to whether these statements are true or false.

Mr. BAKER: You are speaking about $100 invested 12 or 15 or 20 years ago, and what it amounts to now. Has that anything to do at all with whether people in Canada are paying too much for gasoline to-day as against what gasoline costs, or not?

Mr. DONNELLY: It may have considerable to do with it, if the people are paying interest on it.

Mr. BAKER: How can the auditors say that the 6¼ per cent is made on the actual investment in Canada?

By Mr. Donnelly:

Q. You can tell me this: Suppose I had one share in 1912 which cost $100— —A. No. I have nothing.

Q. You can tell us from year to year what dividends would be paid up to the present time?—A. I repeat that the net assets of the Imperial Oil in Canada including profits reinvested are $6\frac{1}{4}$ per cent in 1930 and everything else is made in world trading, emanating from South America and other points, and has absolutely nothing to do with the price of gasoline to the Canadian consumer.

Q. Do you know, for instance, when they made those investments in South America?—A. When?

Q. Yes.—A. That has nothing to do with it at all.

Q. Do you know where the original money came from with which these investments were made?—A. That has nothing to do with the question at all.

Mr. Stanley: In deference to the rest of us, I think we should stick to the reference. I think a very wide interpretation should be given, but surely some of the rest of us who have to sit and listen are entitled to have the subject confined to the reference to the committee.

Mr. Baker: I understand that this question that a certain number of members of the committee are trying to bring out has no relation to what we have to bring out, and we are sitting here listening to a lot of talk and wasting time to no result.

By Hon. Mr. Ralston:

Q. Let us take a hypothetical case. Supposing that in 1916, the stock was doubled and another $100 worth of stock was issued which was sold by the holder to the public and the public invested cash, and it was represented by profit made out of operation, have you traced that down at all in order to find out what transfers were made in the way of capital stock?—A. We have told the result of it as of 1930.

Q. And you have taken that as the actual cost which was paid in by the public for this stock which had been previously issued either by way of stock dividends or by way of split stock—you have treated that all as cash investment?—A. We have taken the assets that they own and the liabilities and the difference is what you are talking about.

Q. You are taking them at cost?—A. Properties at cost, inventories at current values.

Q. And what depreciation have you allowed?—A. Depreciation? Reserve for depreciation as shown in the books of the properties as accumulated.

Mr. Baker: Not more than the government allowed?

The Witness: No. I do not say beyond 1930. How they made their profits prior to 1930, I do not know.

By Hon. Mr. Ralston:

Q. Let us assume that somebody had a property and he sold that property to the Imperial Oil for an issue of so much stock, then, regardless of the actual cost value of that property you have valued the property at the cash value of that stock?—A. I have not valued the property.

Q. You have treated the book value as being represented by the cash value of stock which was paid for it?—A. There was an appraisal of the property, but that was not taken in. We stayed with the original cost.

Q. Take a property which was sold for shares?—A. For a property which was sold for shares?

Q. A property which was acquired for shares?—A. You mean the property that was constructed out of capital stock.

Q. No. If there was any merger or amalgamation and some property of some company was acquired for shares of Imperial Oil; was there any such case as that?—A. I could not say. This company has been in existence since 1882. We are just giving you this picture simply to convert the 1·01 cents per gallon into total dollars, seven million and some hundred thousand dollars, and compared it for your information. You are just as capable of applying it as we are.

Q. That is not what we had you for?—A. Seven million against the net assets, and I am telling you that is the fact. Now, gentlemen, that is all there is to it.

Q. No, it is not. You are taking costs, and costs must be arrived at to get their actual cost invested in construction. There is some one way and some another. You have the actual cash value or the market value of stock which was issued?—A. Yes. We took out of their book figures on properties the write-up, the appraisal.

Q. What?—A. The write-up, the appraisal. In other words, we did not apply the $7,000,000 against the property value; we took out the appraisal. That is to say, supposing they have a property valued at $1,000,000; that is, it cost $1,000,000—

Q. You mean the book values?—A. The book value. Now then, you have it perhaps in a time of prosperity, and it may be worth $2,000,000 on appraisal. Well, that may be written into your books, but for the purpose of this comparison, we base it upon the million, less depreciation.

Q. Did you trace it down to book value and find out what they had written up?—A. No.

Q. Whether it represented an actual payment in cash or whether it represented, for instance, an issue of stock?—A. I am just stating to you this, of the Imperial Oil—to pass upon the book value of their property, we would have to go back to 1882 to answer that.

Q. I thought you would have that information.

By Mr. Stanley:

Q. Was the appraisal in excess of the book value?—A. Yes.

By Hon. Mr. Ralston:

Q. When was the appraisal made?—A. I don't just remember now, but it was some years ago.

Q. Give me an idea, was it five years?—A. 1917.

Q. What I am concerned in, is the result. Was any stock issued?—A. Well now, I do not know as to that; we simply took it out of the value of the assets, that is all.

Q. I want to know what the amounts of the appraisals were, and what the reason for it was, whether stock was issued at that time or not.—A. I do not know as to that; I do not know what they did in 1917 in regard to their stock.

Q. You did not look?—A. No.

Q. You have no record at all?—A. That has got nothing to do with what we have given you. I am simply giving you the book figures.

Q. The answer has something to do with this enquiry.

The CHAIRMAN: Has it anything to do with the price of gasoline?

Hon. Mr. RALSTON: You are charging against this a certain amount for interest on capital.

The CHAIRMAN: Oh, no.

The WITNESS: That is where you are wrong.

The CHAIRMAN: I would like the witness to speak on that, because capital has nothing to do with this. If this company had a bond issue or preferred stock issue, a cumulative preferred stock or something of that kind, it is conceivable you might say that they kept a certain amount of money to pay interest on that. I should like Mr. Matthews to give evidence on that point because I do not think the committee understand it. Will you do that Mr. Matthews?

The WITNESS: There is no interest.

By Hon. Mr. Ralston:

Q. What about the property costs; let us have that.—A. It simply goes to show that you have a big investment at cost upon which you have made $7,000,000 odd; that is all.

The CHAIRMAN: That is not the way of stating it. What we want is, first of all, the price of gasoline to the consumer. That is what these auditors were instructed to do, and that is what they have done. It seems to me the discussion of interest on capital investment and all that sort of thing, is extraneous.

Hon. Mr. RALSTON: Mr. Chairman, it is put in the report of the auditor, which is now before us. The witness has especially underlined it. Now you say it has nothing to do with the enquiry. It has been underlined by the witness and twice referred to in the report. Why did the auditor put it in the report? That is what I am interested in; because I assume it had something to do with the report or he would not deal with it.—A. The net assets of the Imperial Oil in the Canadian operations, with their properties adjusted to cost and the 1930 inventories,—as I have already stated,—at the lower accumulated cost or current valuations, less their liabilities to the public is the resulting figure upon which we have predicated the profit, and it is 6¼ per cent.

Q. As I understand it, the Chairman has suggested it has nothing to do with this enquiry.—A. The question of interest has nothing to do with it, because there is no interest.

Q. All right. Then the return on the investment has something to do with it, let us put it that way. Do you admit that, Mr. Matthews, that the return on investment has something to do with this enquiry.—A. Return on investment?

Q. Yes.—A. When you are comparing the reasonableness of prices, there are two ways of considering the reasonableness of the prices, one is converted to cents per gallon. Now, to begin with, our findings are that the company did not make any more than 1.01 cents per gallon. The reason why we say no more than that is we think that even if we were certifying the accounts for shareholders we would be rather perhaps a little more definite in insisting upon some charges being put in the costs. Now, comparing it from a gallonage point of view, if you like, there is your company that brings the crude oil from all over the continent, refines it, markets it and gets a cent. Just compare that, for instance, with some of your companies in Canada who are doing nothing but jobbing. It might be interesting just for the purpose of comparing the reasonableness of the price to see what their own profit is on their just shipping tank cars. It might be interesting for the purpose of considering the reasonableness of the profit to compare it with what goes to the provinces in the form of taxes. I think it runs up 5, 6 and 7 cents a gallon. In other words, the man who makes the gasoline, in relation to others get 1.01 cents a gallon. Is 1.01 cents an unreasonable profit? The other side is this, for the purpose of the committee's consideration, getting away from the cents per gallon and giving you another picture. They made $7,000,000 odd in 1930. Now their net assets from which we extracted this appraisal increase was the amount of money, the net difference, which is a combination of capital and surplus, on which we applied that figure and which is 6¼ per cent. Now, that is what we tried and are trying to present to this committee.

Q. So that makes it absolutely relative, the sum on which you figure $6\frac{1}{4}$ percent makes it absolutely relative to this committee. The moment you enter on that comparison, you then must find out how that amount was made up on which you base $6\frac{1}{4}$ per cent.—A. An absolutely reasonable question. Quite so.

Q. I think we agree it is rather vital, when you use that per cent.—A. Quite so.

Q. Tell us how that $6\frac{1}{4}$ per cent is figured up. As I understand, you made no test of that except you found an appraisal had been made which exceeded this book value, and you disregarded that.—A. We disregarded that, and followed, of course, down to the inventories to see how they were valued, and so forth, and that the liabilities in a general way were set out in the usual way. That is, to pass an opinion there is nothing unusual about the situation. For instance, there might have been ten million dollars in there for patent trade marks and good will, just as an example—

By the Chairman:

Q. How much was there?—A. Nothing. Things like that, you know what I mean. I appreciate your question; it is a very sound one.

By Hon. Mr. Ralston:

Q. I understood you to say, I don't know whether you found it an actual fact or not, that you took the cost values of the property plus any surplus which has been, as we say, ploughed back into the operation of the undertaking.—A. Of course, that is automatic. By taking your assets just as they are, that is reducing—taking your property—and reducing that by depreciation and by the amount of the appraisal, and on the other side, showing your liabilities to the public, and of course, the difference is your capital stock that has been invested in the property, plus the surplus.

Q. And that surplus keeps on rolling up year by year and is being added to the cost on which you have finally figured the $6\frac{1}{4}$ per cent.—A. It is re-invested back in those assets. That is the statement as of that day. Now, how much was made in previous years I don't know.

Q. Can you tell me what the combined surpluses are?—A. Yes.

Q. The surpluses for the number of years?—A. Yes. We will give you that, in the statement we will submit in detail. The statement we will submit in detail will give you full details of this. The net amount, the net investment capital depreciation value in refining and marketing properties in Canada on that date was one hundred and fifteen millions.

Q. What is the exact calendar date?—A. It is 1930.

Q. What date?—A. January 1st. This is the net assets made up of capital stock and surplus.

Q. Forget capital stock. These are assets against which capital stock was issued.—A. Against which capital stock is a combination of the two—it is a combination of the two. The detailed statement will show the makeup, which is $115,000,000—71 per cent roughly.

Q. That is the net difference between your assets and your liabilities. What is the capital stock, taking the capital stock off?—A. I don't know. I have got it just here on that basis. In order to get the division of that, we would have to take the capital stock of the Imperial Oil Limited as a parent company and divide it back to the marketing and refining, divide it between the two. It is not like as though it were to be divided back against the operations in Canada, but you would have to divide the capital stock on the investment ratio between the investments in Canada and the investments outside of Canada. The Imperial Oil Limited is not a company that operates just a refinery and marketing stations. But we will divide it in the statement.

Q. Now, you gave me a figure of how many millions?—A. $115,000,000.

Q. Is that the combined operations?—A. No; that is the combination of the capital stock and the accumulated profits up to 1930.

Q. Of the whole company?—A. No.

Q. Outside and inside Canada?—A. No. I am speaking now only of refining and marketing. I am staying right with Canada—$115,000,000.

By Mr. Spencer:

Q. $115,000,000?—A. Yes, $115,571,000.

By Hon. Mr. Ralston:

Q. What proportion of the shares do you show as charged against that?—A. I would say—I have answered that before—in making the division between that $115,000,000 you would have to allocate the share capital of the Imperial Oil between your interests outside of Canada—

Q. I am asking you what the fraction is. What is the fraction of share capital which represents the assets in Canada on the basis of investment.—A. I do not think I can give you that, but we can include—

Q. Is one quarter or one half of the investment in Canada?—A. I have not the figure there, so I cannot answer that. I would not want to give you an estimate, but we can include that if you like.

Q. I want to figure out what the shares are selling for. What proportion of shares made up properly represent assets in Canada on a proportionate basis having regard to investment?—A. You are working from the other angle. We are working from the actual assets and liabilities. You are starting from the outside. We are breaking it down.

Q. I am submitting you are working from the book value of the assets.—A. Yes, we are working from the assets and liabilities.

Q. I am submitting there may be a difference between the actual and the book values.—A. But it has nothing to do with the making of the capital stock of the company.

Q. I am trying to find out how much is properly attributable to the surpluses which have rolled up from year to year as compared with the original capital investment.—A. What we would have to do as I say would be, to take the $115,000,000 as I say here, which represents the capital in refining and marketing operations in Canada, and break that down between surplus and capital valuations. I have not got that now, but we can get it.

Q. You cannot give even a rough estimate?—A. No, I cannot. We have not separated them with the operations outside of Canada, but it has got nothing to do with the price of gasoline after all is said and done. If we had extended our inquiry to the highways and byways of this thing, we could have kept going for six months. We have limited this thing to Canada. The position is this: $115,000,000, which is the book figure, if you like, less the appraisal write-up, which is on the books, and we will divide that between capital and surplus; and against that you have your earnings for the year, $7,200,000 on which amounts the figure is 6½ per cent.

Q. I would like that broken down between capital and surplus to give us the proportionate capital stock and the total capital stock in relation to the Canadian operations and world operations on the basis of investment.—A. Well now, just a moment. Supposing that your capital stock has no par value, how are you going to do it?

Q. The number of shares.—A. Just a moment. You really divide 115—divide the whole figure by the number of shares?

Q. No. I want to know from you. I thought you were going to be able to tell me. Look back over the statement for some years and find out how much has been rolled up as surplus each year, and how much of the total of $115,000,000 was accumulated surplus profits, of course.—A. Your instructions did not cover anything like that.

Q. I am not on the stand.—A. Of the $115,000,000 if the stock has no par value, how would you divide up your capital stock and accumulated profits?

Q. The only way I can suggest it to you is taking your total surplus each year, without dividends, if you like, leave the dividends out. Take the surplus each year; in other words, the profits each year, and find out how much of that $115,000,000 is capital, and how much is—

Mr. McPhee: Some of us have been sitting in this committee for weeks and we want to get through. We gave certain instructions to the auditors, as contained in page 407 of the report. I have read the report over twice, and they have absolutely lived up to the instructions given them. Surely you can bring this to a head and get through.

Q. But I am asking you if you can do it.—A. I am asking you a question.

Mr. Bothwell: Do you find anything in the report giving facts upon which you could make a finding?

Mr. McPhee: Certainly.

Mr. Willis: We have an expert for that purpose.

The Chairman: The facts as stated in the report can be elucidated by the auditor. There is no question about that.

Mr. Smoke: The crucial point in this investigation is, they are making only 1·01 cents per gallon on their gas.

Mr. Donnelly: Is this not a fact: the order of reference says that of late the Canadian consumer has been paying too much for gasoline. We have been dealing with 1930; we have not touched 1931 at all, and it is only by comparing 1930 with 1931 that we are going to be able to say whether they have been paying too much or too little. Can you find anything in the report telling you anything about 1931?

Mr. Stanley: No, nor in 1920 either.

Mr. Willis: That is not the reference.

Mr. Donnelly: The order of reference sent to this Committee says of late, not 1930 or 1931.

The Chairman: One at a time, please.

The Witness: Dr. Donnelly, I would also remind you that at the sub-committee, it was pointed out to you that the 1931 figures were not available by the Imperial Oil, and we suggested that if we worked on the 1930 basis and took the trend of crude oil in 1931 to show the average price, would that be satisfactory, and you said yes.

Mr. Donnelly: Well, we will come to that and see whether we got the information or not.

The Witness: That is the fact of the case.

Mr. Donnelly: There are no figures here.

Mr. Stanley: This Committee, Mr. Chairman, referred to the sub-committee the question as to what investigation the auditor was to make. They submitted their written references to him and reported to this Committee. This Committee accepted the reference as satisfactory for the purpose of the investigation. We have been taking evidence all these weeks. The auditor brings in his report distinctly according to the instructions of the sub-committee, approved by this general Committee. We have them here. Now, I think we ought to conclude it very soon. We have gone along now during all these weeks and we have our report. All those other matters are extraneous to the instructions which this Committee through its sub-committee gave to the auditors.

The Chairman: May I suggest to the Committee that we confine our questions for the time being to the report as submitted, and try to get some information.

Hon. Mr. RALSTON: I am trying to confine my questions absolutely to the statement given here:—"altogether taking in 1930 the net assets of the Imperial Oil in Canada with their properties at cost, not appraisal, with their investments in International Petroleum at one-third of the present depressed market values, they show a return of 6¼ per cent." Now, that was my question, and that is what I want to get from Mr. Matthews. Did I understand Mr. Matthews that you did not enquire into that, that you did not verify the figures on the books of the Imperial Oil to ascertain whether the cost was represented by the actual cash payments of the property or otherwise, or whether you simply took the figures as they were and disregarded the appraisals?—A. The book cost of the property less appraisals.

Q. Because I think of a dozen companies, and you can think of a hundred because you have gone through them, who would thank God if they could make one per cent on their book value or one-half per cent. These companies to-day are being reorganized and are reducing the book value of their property by 50 and 75 per cent. The book value has not more to do, as you know, with earning capacity to-day, than the St. Lawrence—

Mr. BAKER: That only occurs in companies such you are speaking of.

Mr. STANLEY: It has nothing to do with the 1·01 cents per gallon.

Hon. Mr. RALSTON: I am saying it has been introduced here, and having been introduced, it is for the Committee to find out all about it.

Mr. BOTHWELL: This Committee is not tied to the report of the sub-committee. Reading from page 175 of the Proceedings and Evidence I find the following:—

> Mr. BOTHWELL: Well, so far as this report is concerned, I take it, Mr. Chairman, that we are not confining ourselves to those particular plants. That is, in the work of getting out the details, we may have to continue the investigation further. This is a method of getting things.
>
> The CHAIRMAN: This is just a method of getting somewhere.
>
> Mr. BOTHWELL: We are not limiting ourselves in any way; we are not limiting the scope of the investigation to the points contained in this report.
>
> The CHAIRMAN: No. There is no attempt to limit the scope of the reference.

Mr. STANLEY: It was not limited in those weeks.

Mr. DONNELLY: Well, Mr. Chairman our auditor was to go into the refineries at Sarnia and Halifax. Le us start with this now: can the auditor give us the average cost per barrel of crude at Sarnia for the year 1930?

The WITNESS: We have converted everything to gasoline.

Q. I want the average cost of crude in the refinery at Sarnia for the year 1930.—A. All right; we worked everything down to gasoline.

Q. We will work it down to gasoline. I want to see how you work it down. I want just the same as was done on page 272 of the Evidence by the British American Oil Company. We asked them what the average price of their crude was in Toronto in 1930 and they told us. They also told us the average cost in 1931, and they told us the percentage of cost that they had taken—.—A. We can get you all those things from our papers, but it will take time. We have worked through gasoline.

Q. You say you can get those things?—A. We have worked them out for you, and if you want them that way, we can get them for you, yes.

Q. I wish you would take those questions. Take those questions I wanted to ask.—A. That is what I suggested yesterday, that you give us those questions. I would be glad to get that, Dr. Donnelly.

Q. I want the average cost of crude at Sarnia per barrel in 1930. I want the average cost of crude at Sarnia for the year 1931 in order to be able to compare one with the other. I want the percentage of gas taken from crude at Sarnia. I want the percentage of gas that you obtained at Sarnia for the years 1930 and 1931. I want the percentage of cost of crude allocated to gasoline at Sarnia for the years 1930 and 1931. I want the cost of refining a barrel of crude for the years 1930 and 1931. I want the total cost of the labour at the refinery for refining purposes only for the years 1930 and 1931, the amount paid for labour at the refinery for refining purposes for the year 1930 and 1931, and the cost of labour allocated to gasoline refining only for the years 1930 and 1931; and the cost of labour in refining a gallon of gasoline for the years 1930 and 1931, all at Sarnia.

Mr. BAKER: I presume, Mr. Chairman, that all Dr. Donnelly's requests come within the findings of the selected body of auditors to arrive at the 1·01 cents per gallon profit from the crude oil when finished. May I ask this question, Mr. Chairman. If we are satisfied with the report of the auditors in this matter, does not that end it? If we are satisfied to accept the findings that this company made 1·01 cents per gallon on the gasoline sold in Canada, is not that enough? Is not that satisfactory to this committee or must this committee enquire into the capital structure? In my opinion, the capital structure has nothing whatsoever to do with it. Are we not satisfied the company shall continue to manufacture and sell gasoline in the country, and if they are not making any more than 1·01 cents per gallon, I for one think they are doing pretty well by the public. They are sailing pretty close to the wind, if you ask me.

Mr. DONNELLY: May I interject there, Mr. Baker. This 1·01 cents a gallon was for 1930. They have not told us what they made for 1931 and the other companies have done so.

Mr. BAKER: This committee thought that 1930 was all that was necessary—

Mr. DONNELLY: We got the information from the other two refineries when we investigated those other refineries. I want to know just how those figures are made up.

The CHAIRMAN: Would you let the auditor say what he did find?

Mr. DONNELLY: Can he give me those figures?

The WITNESS: Dr. Donnelly, we can get you anything you need, but when you start to divide costs into labour and material, you are getting into an analysis that necessarily you do not keep separate in determining the total cost. We can get that.

Q. They must allocate a certain amount of labour to each individual operation.—A. We can get it, but there are a good many operations. We can get it. It is an element of time. Dr. Donnelly, we can get anything this committee wants in the matter of detail. In determining cost, may we suggest this, that all companies do not necessarily keep a separate account for labour and a separate account for material. In the refining business it is on a process basis where each process absorbs its cost, labour and material and other expenses. Now, if you want us to go back and analyse particular processes for the purpose of extracting therefrom the proportion of labour and material, we are at your service.

The CHAIRMAN: Will it contribute anything to the answer we are asked.

By Mr. Donnelly:

Q. I conceive that it does. It is very material. We have the British American Oil Company. They came up here and told us the amount of gasoline, the price, and the average cost of gasoline in Toronto for two years, 1930-31. They told us the amount of the cost of crude that they allocated to gas, the amount of gasoline which they obtained from it, and, according to their figures, they showed that in 1930, the cost of crude which was allocated to gas amounted to somewhere in the neighbourhood of 10 cents, and in the year 1931, the cost of crude which was allocated to gas was somewhere in the neighbourhood of 6½ cents. And from their evidence we would expect in 1931 that we would have a reduction of 3½ cents, wholesale price, but instead of that we get an increase of 2 cents. Now, we want the same figures from the Imperial Oil Company?—A. Dr. Donnelly, I repeat that on the matter of crude in its relation to gasoline we can secure information, but your requests continued into the division of labour and material, and that will take you through the various processes which we can secure if you want it and if the committee can wait.

Mr. SPENCER: How long will it take?

The WITNESS: I haven't any idea. This has nothing to do with the distribution of the final costs.

Mr. DONNELLY: I think it is essential. We have a number of refineries in Canada that are refining gasoline and we want to know how much money we are paying out to labour for the refining of gasoline.

The WITNESS: You can get that by simply taking a refinery's payroll, but you have asked it allocated to gasoline as I remember.

Mr. DONNELLY: Surely.

The WITNESS: That is a different thing.

Mr. STANLEY: Is your investigation along the lines of the inquiries made by Dr. Donnelly going to change that 1·01 cents?

The WITNESS: No, sir, not at all. I can see Dr. Donnelly's point, and it is well taken. If he is after the amount of labour engaged in the refining industry of Canada, there is a very much more simple way to get it; but to carry out your instructions here, Dr. Donnelly, we would be here six months, but we can get you the payrolls.

Mr. DONNELLY: The reason why I said gasoline alone is because we were investigating gasoline alone, and we are not going into cylinder oils and naphtha and lubricating oils which we would have to go into in order to consider the whole payroll. What I wanted was the amount put into gasoline—the amount of labour. We do not want all that other labour brought in and charged up to gasoline.

Mr. BAKER: If, after we have got all this and remained here for six or seven weeks it would not alter the 1·01 cents, what benefit do we derive? Now, we did not start the committee to find out the number of people employed in refining gasoline; if we had, there is a much cheaper way to get it. If we get this and have not changed the 1·01 cents are we any further ahead? I think it is for this committee to decide whether we consider that this company or any other company which is making 1·01 cents profit on a gallon is robbing the public or not. That is the verdict required I would judge, from this committee, and I do not see what else is required.

Mr. BOTHWELL: The fact is this: According to the evidence given here the price of crude came down to such an extent, and we would naturally expect a reduction in the price of gasoline. Instead of that the price of gasoline went up.

Mr. DONNELLY: The wholesale price.

Mr. BAKER: The average was 1·01 cents per gallon.

The CHAIRMAN: I would like to ask the auditor this question. He states in his report that the price of gasoline followed the price of crude. How many years did that cover?

The WITNESS: 1929-1930-1931. The tank wagon selling price.

By Mr. Donnelly:

Q. The wholesale price?—A. The tank wagon selling price.

Q. That is a different process?—A. The tank wagon selling price which is the basis to the consumer. We have a statement for these three years. As a matter of fact, Dr. Donnelly, you are stressing the wholesale price, and if that is what you are stressing they lost money on it.

Q. How much?—A. 0·04 cents per gallon in 1930.

Q. We realize this, that when the price of crude dropped, as the British American said, 3½ cents they put the price up. There is 5½ They could raise it 2 cents and still make a good profit, and the price would come down 3 cents?—A. 1929, 1930, 1931—this supplement is ready for the committee. We have here a statement that shows the cost of crude in 1929 at $1.45 a barrel, when I believe the tariff was 1 cent per gallon on gasoline, and Mr. Richard's evidence indicated that there was a good deal of gasoline coming in free at that time on account of the grading. Now, Mr. Bothwell, I understand, wants to get the relationship of crude gasoline. The price of crude in 1929, in May, was $1.45 a barrel; by 1931 it fell to 18 cents. We make the statement and submit the details that the price of gasoline—that the tank waggon selling prices of gasoline which, in turn, in the Imperial Oil stations were passed on to the consumer in exactly the same ratio fell with that drop in crude until October, 1931, when crude went up—it may have gone up in August—but from October to December they could have raised their prices and still have been in line with crude in comparison with the period prior to the institution of these tariffs, but they did not do so.

The CHAIRMAN: Has the price of gasoline followed the price of crude during the time of this investigation?

The WITNESS: Yes. So far as the selling price of Imperial Oil, Limited, is conerned it has definitely followed the price of crude. The big factor in that is—it seems almost incredible on the face of it—but we are prepared to give the statement, we cannot change the facts—that the fluctuating charges such as sales tax, excise tax, exchange and freight surcharges have fluctuated so much in that period that it absorbs a tremendous amount of the apparent advantage that should go to the consumer. But the fact of the matter is that the importers of the crude have got to pay the laid down price. All these quotations are based upon posted prices at the well. This statement is for evidence. Now, on the basis of this we have predicated our remarks that the price of gasoline as set by the Imperial Oil has been based upon the price of crude on the same basis since 1929. We do not go back any further than that. The reason we went back to 1929 was that we had an idea that they may be fixing their selling prices on the basis of the amount of the duties so our investigation was conducted with the express purpose of determining if that was so, and, these statements would indicate the laid down cost of crude to the Imperial Oil in those years, and out on the right will be shown the posted tank waggon selling prices at Calgary, Edmonton, Saskatoon, Regina, Brandon, Winnipeg, Hamilton, Windsor, Toronto.

By Mr. Donnelly:

Q. Will you say that they have not followed the duties and the dumping duties in regard to tank car lots? Answer by question?—A. I think—have you read our report?

Q. Yes, I have read your report?—A. Did you see what we said?

Q. You say tank waggon and service stations, but you do not say anything about tank cars except that you say they lost one year in tank cars— —A. You have read our report?

Q. Yes. I have?—A. I think you will find where we state definitely that the "wholesale prices are not zoned to fluctuate at a fixed margin under retail, and in some cases, have been adjusted upward in order to prevent wholesales business being done at a loss, as was the case in 1930 when the net loss per Imperial gallon on wholesale trade was ·04 cents." Roughly, so far as we could find out, the tank car business is the business that is in direct competition with the United States, and those prices are really fixed according to the local competition conditions. But I simply come back to the fact that the result of their prices, at any rate, in 1930, was a loss. In speaking of the consumer, so far as the Imperial Oil, at any rate, is concerned, they deal with the consumers through their tank waggons and their service stations, and in view of the fact that they do, perhaps, two-thirds of the business, the indication speaks for itself.

By Hon. Mr. Ralston:

Q. Do I understand you to say that in connection with the tank car lots local conditions govern the price—local competitive conditions?—A. As far as I understand it, yes.

Q. Now, does that mean local competitive conditions with imported gasoline? —A. Yes.

Q. Therefore, what we have got to do is to find out how much the imported gasoline cost laid down without duty, and the imported gasoline is added to the 2½ cent duty, and whatever amount is necessary for the purpose of adjusting expenses, and the excise tax, and then figure out whether or not they can compete with that?—A. Whether or not that is a fact, they are operating at a loss.

By Mr. Donelly:

Q. They did in 1931?—A. In 1930. There was an upward pricing of wholesale in 1931. In 1931, when checking the price structure, there was an increase upward in wholesale; no doubt about that.

Q. They did not follow the price of the wholesale prices?—A. I am making the statement again, Mr. Donnelly, the price of crude in its relationship to consumer business—

Q. I understatnd that?—A. We must consider the thing. You are interjecting the wholesale feature. Will you please just deal with it one step at a time and let us get the facts to the committee. I repeat to this committee that in selling to the consumer through tank waggons or through service stations this company fixed its gasoline prices from 1929 to 1930 on the basis of crude oil. The wholesale price, I repeat, has no structure so far as we could find excepting its relationship to the United States business; and the result of it all is, at any rate in 1930, they made a loss. I cannot tell you anything more.

By Hon. Mr. Ralston:

Q. And if the duty were off they would make more loss?—A. I do not know. The price went up in 1931.

Q. And if the duty were off they would make more loss; they would have to drop the price accordingly; is that so?—A. I don't know.

Q. That is obvious, is it not?—A. They made a loss in 1930, and raised their prices in 1931.

Q. And did you compare their prices, wholesale prices in 1930 with the prices of imported gasoline?—A. Simply to the point to determine that they were upward. We wanted to be able to see whether the prices in 1931 had been maintained at all equal with 1930. With this idea in mind, I might read this paragraph:

> In 1931, operating figures of Imperial Oil Limited are not yet available. The committee instructed us to base our investigation on the 1930 accounts and secure sufficient information as to indicate the probable

> trend of operating results as between 1930 and 1931. This was done on the basis of the average price trend of crude oil with added costs and the average gasoline prices of Imperial Oil Limited in the two years.

Doctor Donnelly, if you will recall, you agreed to that.

> Our findings are that the average spread between crude oil with added costs and tank waggon gasoline prices in Canada for the years 1930 and 1931 were equally maintained.

It follows absolutely:

> . . . . whereas the average spread between crude oil and wholesale prices show an increasing tendency in 1931.

Now, we did not carry into 1931 to the extent of being able to say to you that the estimated profit or loss on wholesale would be so much, but we can make the definite statement that on their consumer business they did maintain the crude oil relationship.

Q. The consumer gets these tank car lots eventually?—A. As far as Imperial Oil is concerned they deal with the consumer through tank waggons and service stations. As far as this statement is concerned, it is relating entirely to the—

Q. They deal with the consumer also by putting their tank cars into barrels?—A. Well, to jobbers. Yes, that is wholesale business.

Q. That is the business you say that showed an increasing spread in 1931?—A. Yes.

Q. Can you tell me, Mr. Matthews—that is the business I am interested in; it is the fishermen who are buying this stuff in barrels out of these tank cars—

Mr. DONNELLY: We had one witness who said that if he could buy without duty across the line he would be selling here in Ottawa from 2 to 3 cents less.

The WITNESS: Dr. Donnelly, we are getting on to another question which I will be glad to lead up to. We are talking now about the basis of fixing prices. Now, if you are through with that we will move to the next question.

By Hon. Mr. Ralston:

Q. There is a greater spread in wholesale prices in 1931 although the spread in connection with retail prices—you call it consumer business—is about maintained as between crude and gasoline?—A. That follows, we will say, definitely, because up to October they followed it. From October to December crude went up but they did not raise their gasoline prices at these specific points I have mentioned.

Q. I am suggesting that if tank car lots went up then when the tank car gasoline was sold to the consumer he had to add to it in order to sell to the actual consumers.

Mr. BAKER: Have we not got sufficient evidence in the sub-committee to formulate a report on this investigation?

By Hon. Mr. Ralston:

Q. May I follow that up? You must, I think, make an exception to paragraph C of your report in which you say:—

> . . . it automatically follows that no grounds exist for any statement contending that the company has taken unfair advantage of either the specific or dumping duties in its gasoline prices to consumers.

You must confine that to consumers; and so it does not apply to wholesale prices?—A. We have said consumers because the reference is to consumers.

Q. You say that does not include; it is not indicated?—A. We are talking of consumer business; the reference refers to consumer business.

Q. That is to say it refers to a direct sale?—A. Tank waggon sales and service station sales of Imperial Oil.

Q. You realize that there are other consumers who are getting Imperial Oil who are not consumers within the terms of paragraph C?—A. Through the jobbers?

Q. Through the jobbers?—A. We are not making any statement beyond what we are able to find as far as Imperial Oil controls the situation.

Q. You are making a very important statement?—A. That reference has been to consumers throughout. That was in our mind and our instructions were definite in that regard.

Q. You mean the reference has been to a sale by this company to consumers?—A. Yes.

Q. Not a sale by this company to jobbers, and then to consumers?—A. No. On the grounds, I suppose, and there is a certain amount of reasoning in this, if this business controls, as it does, I suppose, two-thirds of the gallonage in Canada—about that—why, obviously, they set, as it were, the competition. If that is an indication of what they say, the evidence seems to bear out according to witnesses that they have to follow Imperial Oil prices. If that is so I suppose the wholesaler has to follow them.

Q. Now, then, take Mr. Baker's point. He was as anxious as we are to get at the findings—

Mr. STANLEY: You asked about gasoline to the fishermen. I think Mr. Matthews had a statement with regard to fishermen as consumers. Col. Ralston spoke of gasoline supplied to fishermen?

The WITNESS: Yes. They got it at tank waggon prices.

By Hon. Mr. Ralston:

Q. That is when the company sells direct to them?—A. Yes.

Q. That is different. I am not talking of that?—A. Of course, Col. Ralston was speaking of the sales to the jobber. As far as Imperial Oil is concerned they give the same price to the fishermen both east and west as well as to farmers both east and west at the same price they sell to their own service stations.

Q. I am talking about when they sell to the jobber and the fisherman buys from the jobber. You do not know what price is charged?—A. You are in the same position there as you are when the Imperial Oil sell to independent dealers without competition—the dealers who have no arrangement as to prices; but we are going on the general premise. Our instructions are on Imperial Oil. In view of the fact that Imperial Oil is recognized as being the two-thirds element in the gasoline business there seems to be some relationship as to the position of the consumer.

Q. In paragraph B you deal with the marketing costs?—A. Yes.

Q. And I take it on the whole—I do not want to summarize your report—but you rather feel that marketing costs are pretty high?—A. Is there a man in this room who does not believe that? There are too many barber shops and too much of everything, but what can you do?

Q. You go to some pains to indicate that you think possibly that condition ought to continue otherwise there might be a monopoly?—A. I am not doing any more than suggesting to you that its relief or its cure could only lie, so far as we can see, in the discontinuance of the duplication, and the result of that.

Q. The result is that imported gasoline creats the competition?—A. Not at all; why would it?

Q. Why would it not?—A. What has that to do with market expansion?

Q. If you eliminate the marketing conditions—the number of barber shops —and get only one Imperial Oil, then you have imported gasoline to provide the competition?—A. I suppose then you would be up against the old story of whether the monopoly would take advantage of its price situation.

Q. You are up against the story whether the monopoly would take advantage of the duty?—A. Yes. The price to the extent of the duty.

Q. Therefore, I do not think we need worry about the bugbear of monopoly if the duty were taken off?—A. If the duty were taken off? Of course, that is a political matter. That has nothing to do with me.

Q. It is an economical matter. I am saying that the monopoly feared or which is suggested to be feared would be done away with if imported gasoline could come in; is that so?—A. As conditions now are, if this business were in the hands of one company, a monopoly is, I suppose, the natural result. Now, just what action any government would take is no concern of ours.

Q. You recognize that there is a plentiful supply of gasoline to be gotten in order to prevent such monopoly?—A. I am not concerned about what governments do.

Q. I am not talking about governments. Anybody reading this report would think there was no place else to get gasoline but from a Canadian company. I am saying that in the course of your investigation you must have learned enough or have gotten sufficient information to know that there is imported gasoline which might be obtained?—A. There is any amount of opportunity for that, I suppose.

Mr. STANLEY: The ingenuity of Col. Ralston's questions and the adroitness of the answers are interesting, but it is not getting us anywhere.

Hon. Mr. RALSTON: I know where it is getting us.

By Mr. Donnelly:

Q. The wholesale price, ·04 cents in 1930 is one thing, but they put up their price of gasoline practically 2 cents in 1931?—A. You say they put it up 2 cents?

Q. I just took a figure. The 1st of September, 1930, the price of gasoline in the city of Montreal was 12·6 cents; on the 1st September, 1931, the price of gasoline in tank car lots in Montreal was 14·5 cents. That is 1·9 cents they put it up. Was that also with the wholesaler?—A. Was that at the end of 1930?

Q. The 1st of September, 1930, and the 1st of September, 1931. Therefore, would you say that the wholesaler, with the price of crude remaining the same, should be making a profit of somewhere in the neighbourhood of 1·86?—A. I am not estimating the jobber's profit.

Q. The wholesaler. I am not talking of jobbers. I say the refineries, if they sold at a loss of ·04 cents they were getting 1·9 cents more the next year?—A. Are you taking one point?

Q. I took one point. I can take the other points?—A. You are taking the price at one point.

Q. At that one point?—A. No. That would be an unsound way, because you would have to take the zoning of your prices over the whole country and its affect on ·04. It is the result of trading from coast to coast. You are taking one point and applying it to that. You would have to average it.

Q. Take it another way. Suppose that in the wholesale business from 1930 to 1931 crude oil remained the same; they put up the price of gasoline 2 cents?—A. What gasoline?

Q. The same gasoline which the refineries sold at car lots wholesale?—A. The crude has not risen?

Q. The crude had not risen; the same price as in 1930. Then they should be making a profit of 1·96 cents should they not?—A. Well, Dr. Donnelly, if you want their wholesale profits in 1931 we could get you a fair estimate of it by taking the actual average in 1931; but I would not start in guessing.

Q. That is not guessing; that is an actual fact?—A. No. I would not care to say as you have, because it is only a premise; it is not based upon the price that exists. If you want us to go into 1931 and get the wholesale prices we could do it; but to ask me if the price went up 2 cents what would be the result without considering the facts, I would not care to answer that.

Mr. BAKER: It was moved by Mr. McPhee and seconded that the report of the auditors be adopted.

Mr. DONNELLY: We are still discussing this report at the present time.

The CHAIRMAN: I do not want to hinder discussion pertinent to the question.

By Mr. Bothwell:

Q. You stated that the three star gasoline of the Imperial Oil was of a higher quality than the American gasoline.—A. I said what?

Q. That the three star gasoline of the Imperial Oil— —A. Where did we state that?

Q. You stated that yesterday, I believe.—A. There were tests made. We saw tests that were made at various stations in the United States on the octane ratings, actual physical tests. That may be presented here in evidence, if you want it.

Q. I should like to know what you compared it with.—A. I have a statement that we prepared to submit to this Committee showing points east and west where the prices of gasoline could be brought into Canada if there were no duty—

Q. I should like to know about this octane rating.—A. We will give it to you, sir.

Q. Now.—A. We have not got it to-day, but we will give you the complete details. There were tests at various points.

Q. Did you make a test of the three star gasoline?—A. It is included in there.

Q. With other companies in Canada?—A. No, no other companies in Canada, in the United States.

Q. Not with any of the other companies in Canada?—A. No, this is a comparison of Imperial gasoline with gasoline in the United States which is rated on that statement as equivalent value to—

Q. Well now—.—A. We can give you the full file.

Q. You will file that with us?—A. Yes.

Q. Then another question along that same line. The Imperial Oil I believe, handle three different grades of gasoline. In manufacturing those three different grades, what spread of price would there be on the three star grade first, the medium grade, one lower than that, and one higher?—A. The cost of manufacturing?

Q. Yes.—A. Well, I will tell you, that in the gasoline with lead content, the lead content is first charged against that particular gasoline; that is, if it is retail gasoline we divided it between retail and wholesale, not between the different grades within the retail.

Q. For instance, take the poor grade of gasoline that they are supplying now, I do not know what they call it, I think it is Royalite.—A. Made by the Imperial Oil?

Q. Yes.—A. Imperial?

Mr. WILLIS: Is this not a question to ask the company, Mr. Chairman?

Mr. BAKER: The question has been directed to the auditor, and I think a representative of the company should be brought here to answer that.

Mr. BOTHWELL: The auditor was endeavouring to find the cost, to find out the difference in cost of manufacturing the two grades.

The WITNESS: Mr. Bothwell, do you mean that in asking us to determine costs of gasoline you wanted us to analyze those costs between every type of gasoline they made, or upon so and so—

Q. No.—A. The extent of each generally?

Q. I am following up your answer. You say in a statement made yesterday that three star gasoline in Canada is better than the comparable grade of gasoline in the United States, and I am asking you now about a difference in the cost of manufacturing the different grades of gasoline, and what the difference would be.—A. Well, I told you we will give you everything. We are submitting to this committee a statement that shows the price of gasoline at certain stations, at certain points in the United States selected by us at random, prepared by the company, checked by us. We had the octane ratings of the particular gasoline; we saw that octane rating in the United States, and in comparing that with the Canadian gasoline made by the Imperial Oil we used the three star rating which has a higher octane quality than the gas with which it was compared in the United States, which we will indicate in the report, in the schedule which we will file, showing that three star gasoline has a higher octane rating than the gasoline with which it is compared in the United States.

Q. Now, taking the Imperial Oil statement that they filed here at page 120 of the Evidence, they say that their manufacturing expense was 1·71 cents.—A. Manufacturing expenses?

Q. Per gallon. That is for three star gasoline, as we understand the evidence.—A. Why three star? They make other gasoline than three star.

Q. I say that is as we understand the evidence given at the time the statement was filed.—A. Mr. Bothwell, their gasoline in its entirety. They make more than three star. Was there three star in 1930? You see, I do not think that the three star was out in 1930; it did not come out until later. You are talking about three star, I think.

Q. They gave us this for the year 1930?—A. Mr. Bothwell, just give us those figures here now. We will submit those schedules, because if the members of the committee will ask us for certain schedules which they want, it might answer many of those questions. We are submitting here statements along the line of Mr. Bothwell's questions, statements showing the price of gasoline on September 1st and on the 8th February, 1932, two definite dates. The reason why we selected those was that again we felt the company—that is before we prepared this statement—when we prepared that we did not consider it further—we thought that maybe the company were basing their prices, as I say, on those duties. Here is in evidence that statement before the tariff came into effect, and after it came into effect. That relates to competition between Halifax and New York; Saint John and Augusta, Maine; Montreal and Manchester, N. H.; Sherbrooke and Burlington, Vermont; Toronto versus Buffalo.

Mr. BAKER: Didn't we go over all this yesterday?

The WITNESS: No, not in detail; I only gave it to the committee.

The CHAIRMAN: Go ahead.

The WITNESS: Toronto versus Buffalo, Border Cities versus Detroit, Fort William versus Duluth, Winnipeg versus Minneapolis, Brandon versus Grand Forks, Regina versus Minot, Calgary versus Helena. You may have it, it is in evidence here.

Mr. BAKER: Yesterday you gave it yourself.

Mr. DONNELLY: It was not submitted as evidence; it was not filed.

The WITNESS: It is in connection with those statements that I am prepared to submit it. In connection with this statement in our report, again I would refer because after all, in considering the question of duties, we first determine the basis of fixing the prices. Let us get this logically, now. We first determine the basis of fixing prices to the consumer over a period of three years. It was based upon the movement of crude. Now, we gave you cities which we tested. It is in the evidence. Now, it is just as if those prices had been made without the company having any knowledge of the tariffs. They may have been made if they had not known anything about the tariffs. Now then, the next move is to compare those prices with American prices in competition, which will show the resulting figures. The result of this analysis is simply this: that as you move away from the point of bootlegging competition the spread between the price of the Imperial Oil, based upon crude oil and the price of American gasoline. . . .

By Mr. Donnelly:

Q. When you get away from the bootleg gasoline?—A. When you get away from the bootlegging, yes. If you will refer to this evidence, that we have put in you take points like Detroit, you get to the big centres like Detroit and New York where bootlegging is centralized, you will find as you get away from that the prices of the Imperial Oil are under what they could be brought in for without duty, in every case. As you come nearer to the point of bootlegging, you will find sometimes they will run, to absorb part of this specific duty, when you get to a city like Detroit you might find the group may be equivalent, but it has got nothing to do with the fixing of the price.

By Mr. Bothwell:

Q. How do you explain this: the cost of the gasoline laid down in Montreal from the Dutch West Indies?—A. Mr. Bothwell, have you read our report?

Q. Yes.—A. I think we state in there, and I think you will find the reason for it is that the gasoline prices in the United States have not been maintained with the prices of crude. Now, that is the reason, and one of the reasons why they have not is—you have had sufficient evidence of it already—that part of it is made up of taxes that should go to the different states.

Hon. Mr. Ralston: That is one reason why I went away. I thought I would come back when they got through with it.

By Mr. Donnelly:

Q. You say the bootlegging in the United States has caused the breaking down of prices there?—A. Yes, from our investigations through our own people.

Q. Would you say that was the only reason?—A. Plus over-production of gasoline.

Q. Because at the present time, the price has gone up. Bootlegging must have stopped.—A. That may be; I am not controlling the situation.

Q. Would you say bootlegging has stopped because the price has gone up?—A. I am only making a statement on the basis of the evidence we have submitted. I certainly would not be responsible for anything that happens in the gasoline industry in the United States.

Q. Do you know that gasoline can be laid down at Montreal from the Dutch West Indies—

Mr. Baker: I am suggesting that is not a question that relates to our auditors at all. They are to give us facts and figures, not their knowledge of the traffic in gasoline world-wide.

Mr. Donnelly: The auditor himself says that the—

Mr. Baker: The question is wholly unnecessary in my opinion, Mr. Chairman.

Mr. Donnelly: He say this: "Our findings further brought out the fact that the reason for the differences between United States competitive prices and those of Imperial Oil Limited was due to the demoralized condition of the gasoline industry in the United States, caused by the over-production of gasoline and the various tax evasion rackets which in turn resulted in the price of United States gasoline falling far below the relative movements in crude oil prices." Now, I say, if you can lay down gasoline from the Dutch West Indies at Montreal just as cheaply as you can from the United States, is the industry demoralized in the Dutch West Indies?

Mr. BAKER: That is not a question for the auditor.

Mr. STANLEY: The evidence in regard to the Dutch West Indies given by the Shell Oil Company showed that it had no relation to the standard or listed posted prices of crude in the mid-continent field. They were subsidiary companies pure and simple.

Mr. DONNELLY: Excuse me if I differ with you there, because he said he paid the same price from the Dutch West Indies as at the gulf ports. He particularly said that he bought from the Dutch West Indies at the same price as the gulf ports, and the Dominion government did not appraise for duty and did not apply any dump when they bought at the gulf ports price. Those are his exact statements.

Mr. SMOKE: Put the motion, Mr. Chairman, and get through with it.

Mr. BOTHWELL: Well, Mr. Chairman, on this question I do not think the motion should be made. There is no motion. This is simply evidence that this witness has given—

The CHAIRMAN: The auditor?

Mr. BOTHWELL: The same as any other witness giving evidence.

The CHAIRMAN: The motion is to adopt the report not the evidence being given by the witness. We have been discussing the question of gasoline since March 8th. We have had witnesses from everywhere connected with the gasoline industry in Canada. We have had the broadest possible enquiry and it is quite conceivable that if we went on the way we are going, allowing everybody to ask any question regarding the industry anywhere, we would not get through this enquiry for six months. The auditor was given specific instructions in his reference, covering the resolution of the House of Commons. He has made his investigation, made his findings and made his report. Now the question is, shall this report be adopted? Is that the pleasure of the committee?

Hon. Mr. RALSTON: Mr. Chairman, I submit with all due deference to the mover and seconder of the motion, that that practice has never taken place in any committee of this House or anywhere else. I submit that Mr. Matthews is presenting us with evidence; he is presenting us with his evidence in the shape of a report and he is subject to such questions as the members of the committee might care to ask. To adopt the report of the witness would be to adopt the evidence of a witness, and it would be just the same as taking the evidence of any other witness. What this committee must do is take Mr. Matthews' evidence and all the other evidence that has been given, and make a finding and report our findings on the evidence to the House. I submit with all deference you cannot adopt this report. I submit the committee would be substituting Mr. Matthews for this committee, if they adopted Mr. Matthews' report. I do not think any such motion was ever made before in any committee that has ever been formed by the House of Commons. Mr. Matthews is just simply an expert asked to give expert evidence. I have no doubt he has given evidence in court thousands of times in that capacity; and I will undertake to say no judge ever said, "I will take Mr. Matthews' evidence" until he came to make his decision, and then not without discussing his evidence back and forth. I am not in any was reflecting on Mr. Matthews, but I submit this is not the proper procedure to take at this time. Mr. Matthews is in the same position as any other witness. The committee when considering its report, might decide to take the evidence of the witnesses who appeared from Ottawa. A motion might just as well be made to adopt the evidence of those witnesses who came here from Ottawa. I submit the only thing we adopt is the report made after the consideration of Mr. Matthews' evidence and all the other evidence.

Mr. DONNELLY: I might say with regard to that that Mr. Matthews said himself he had not read all the evidence here.

The CHAIRMAN: The report submitted by the auditors who were appointed by the committee places Mr. Matthews in a very different position from any other witness called to give evidence. He has made a report and I am advised that the committee, at some stage, should adopt or reject such report. I thought this was the appropriate time to deal with it.

Hon. Mr. RALSTON: We should receive it. It is in the record; we do not adopt it. It would amount to the committee pledging itself to everything Mr. Matthews has said here. We take his evidence and we hear what he has to say in connection with his findings. We take all the other evidence, and then we decide what findings we shall make and what we shall report to the House.

The CHAIRMAN: The sense in which I was making those remarks is that the committee would adopt the report, not the evidence apart from the report. The motion was made prior to any evidence being taken. Now having heard the evidence by way of explanation, should the report be adopted or refused.

Hon. Mr. RALSTON: I do not think you need a motion. The witness gives his evidence the same as any other witness. I do not know whether he was sworn or not, and I do not care. He is here as a witness, and his report is in the record. We have received it now. I do not think we need a motion; I think it is out of order.

Mr. WILLIS: There is a slight difference here. For a number of months we have heard evidence, and from that evidence the sub-committee decided what questions should be answered. Those questions were submitted to an expert, and he in effect answered those questions on behalf of the committee.

Hon. Mr. RALSTON: No.

Mr. WILLIS: If we so desire; if we so believe that he answered those questions in accordance with our findings that report could be adopted as our own. Whether it is wise or unwise, I say that is the procedure. If we consider the report brought in by Mr. Matthews as a report that we as a Committee would be glad to sponsor in the House, then we could adopt that report as our report. It is not a question of one witness as against another. We had examined witnesses for a month, and we finally came down to the basis where we thought we could settle the question of the price of gas, and we asked for answers to specific questions. We have those answers, and if we so desire, we can take those answers as being our report.

Hon. Mr. RALSTON: Quite right.

The CHAIRMAN: The motion is shall the auditor's report, presented to this Committee, be adopted.

Hon. Mr. RALSTON: I ask you, Mr. Chairman, to rule that out of order. I ask you also, with deference, to take some opinion on the matter. I do not think you will find a motion to receive a report is necessary; and certainly a motion to adopt a report is not in order in this way. If you adopt this report there will be no need of making any findings, and we shall have no opportunity to discuss our report, as we should have, in camera.

The CHAIRMAN: The adoption of the auditors report will not preclude our making a report to the House. The report of the Committee is a different thing. If you accept the motion made with that understanding, I think it would be possible to adopt it.

Hon. Mr. RALSTON: I do not think it would get us anywhere. It might be regarded by somebody as adopting the auditor's report as our own.

Mr. WILLIS: It was not said that this report was to be adopted as our report. They are two entirely different matters. I think this one should be received first.

Hon. Mr. RALSTON: It is received in evidence now. I submit no motion is necessary.

Mr. WILLIS: We have a motion before this Committee which should be dealt with one way or another.

Hon. Mr. RALSTON: I was going to ask the mover and seconder to withdraw it.

The CHAIRMAN: What does the mover say?

Mr. STANLEY: The mover has moved.

Hon. Mr. RALSTON: I do not think any disrespect will be shown to his memory by not putting it.

Mr. ERNST: Rule it out of order.

Mr. HACKETT: To bring it to a head, I move an amendment to the motion, by striking out the word "adopted" and inserting therefor the word "received" in its place.

Mr. SPENCER: I second that.

Hon. Mr. RALSTON: If I might say this, for the purpose of the record, I have no objection to voting for the motion with the understanding that it means only what has already been put in the report placed before the Committee, and that it does not bind me, at least, the other members of the Committee can speak for themselves, in any way to the conclusions set out in the report or in the findings.

Mr. BOTHWELL: I am exactly in the same position as far as receiving the report is concerned.

The CHAIRMAN: You have heard the amendment, gentlemen; what is your pleasure?

Carried.

Committee adjourned at the call of the Chair.

APPENDIX

McCOLL-FRONTENAC OIL COMPANY LIMITED

Summary of Operation in Cents per Imperial Gallon of Gasoline
Year ending January 1932

(Not Examined by Committee's Auditors.)

	Total
Refinery Costs—	
Crude oil and other materials	7·07
Manufacturing expenses	1·61
Depreciation	0·26
Provincial and municipal taxes	0·09
Dominion Income Tax	0·17
Total refinery costs	9·20
Marketing Costs—	
Freight from refinery to marketing stations	1·23
Provincial and municipal taxes	0·18
Sales tax	0·29
Marketing expenses and general administration	3·41
Contingency reserve	0·63
Total marketing	5·74
Total Cost	14·94
Average Selling Price	16·49
Average Net Profit	1·55

THE BRITISH AMERICAN OIL COMPANY, LIMITED

Summary of Operations—in Cents per Imperial Gallon of Gasoline
Fiscal Year ending December 31, 1931

(Not Examined by Committee's Auditors.)

In Cents per Imperial Gallon

	Total Gasoline all Refineries
Refinery Costs—	
Crude oil and other materials	6·45
Manufacturing expenses	1·64
Depreciation and general administration	1·69
Provincial and municipal taxes	0·06
Dominion Income Tax	0·21
Total refinery costs in cents per Imperial gallon	10·05

In Cents per Imperial Gallon

Marketing Costs—	
Freight from refinery to marketing stations	1·83
Provincial and municipal taxes	0·21
Sales tax	0·32
Marketing expenses	2·25
Packages	–
Contingency reserve	–
Total marketing costs in cents per Imperial gallon	4·61
Total Costs—In cents per Imperial gallon	14·66
Average Selling Price—In cents per Imperial gallon	16·54
Average Net Profit—In cents per Imperial gallon	1·88

Note.—The above profit of 1·88 cents is after deducting 0·19 cents per Imperial gallon representing debenture interest included in depreciation and general administration expense.

April 22, 1932.

THE BRITISH AMERICAN OIL COMPANY, LIMITED

SUMMARY OF REFINERY COSTS YEAR 1931

—	Gasoline	Refined Oil	Fuel Oil	Coke	Total all products
Quantity produced and sold from crude run (gallons)	44,868,536	2,055,649	14,395,287	4,375,430	65,694,902
Average unit value f.o.b. plant (cents)	11·92	13·02	5·13	1·85	9·80
Total value	5,348,329·49	267,645·50	738,478·22	80,945·46	6,438,100·40
Joint Costs Allocated to the Several Products—					
Crude oil and material consumed	2,894,164·40	112,967·91	311·747·96	34,216·24	3,353,096·51
Manufacturing expense	981,787·92	44,943·74	124,027·44	13,612·76	1,164,371·86
Total allocated costs	3,875,952·32	157,911·65	435,775·40	47,829·00	4,517,468·37
Percent of total allocated costs	85·80	3·49	9·65	1·06	100·00

THE BRITISH AMERICAN OIL COMPANY, LIMITED

SUMMARY OF REFINERY COSTS YEAR 1931

—	Gasoline	Refined Oil	Fuel Oil	Coke	Total all products
Average Allocated Costs—					
Crude oil (cents per gallon)	6·45	5·50	2·17	0·78	5·10
Conversion (cents per gallon)	2·19	2·18	0·85	0·31	1·77
Total (cents per gallon)	8·64	7·68	3·02	1·09	6·87
Average freight to destination (cents per gallon)	1·83	1·79	0·09	0·01	1·33
Sales Tax	0·32	0·28	....	0·07	0·23
Average cost including transportation (cents per gallon) and Sales Tax	10·79	9·75	3·11	1·17	8·43

SESSION 1932

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 19

Reference.—Price of Gasoline

Report of George A. Touche & Co., and Appendices.

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1932

REPORT OF GEORGE A. TOUCHE & CO.

GEORGE A. TOUCHE & CO.
CHARTERED ACCOUNTANTS
67 YONGE STREET,
TORONTO, May 9, 1932.

R. C. MATTHEWS, Esq., M.P.,
Chairman, Select Standing Committee on
Banking and Commerce,
House of Commons,
Ottawa, Canada.

DEAR SIR,—The Minutes of the Select Standing Committee on Banking and Commerce dated March 8, 1932, show the following reference:—

> That, in the opinion of this House, the price of gasoline to the Canadian consumer has for some time past been too high and that this matter should be referred to the Select Standing Committee on Banking and Commerce to investigate and report.

Under date of the 22nd March, 1932, we were instructed to investigate the accounts of Imperial Oil Limited under authority of the resolution of the Banking and Commerce Committee, which provided as follows:—

> Your Sub-Committee duly convened this day in conference with the Committee Auditors and Mr. McCloskey of Imperial Oil Limited begs to report that the said auditors be instructed as follows, namely:—
>
> 1. That the accounts of Imperial Oil Limited be taken for the purpose of establishing the fundamental facts required by the Committee.
> 2. That a basis of establishing the ascertainment of costs be mutually agreed upon between the auditors and the officers of Imperial Oil Limited.
> 3. That for the purposes of the two preceding paragraphs, the investigation be specifically applied against—
>   (*a*) The Sarnia and Halifax Refineries as regards the elements entering into production costs as a whole and as applicable to proportionate distribution of these total costs against gasoline and other commodities refined from crude.
>   (*b*) The relative wholesale price of gasoline and other commodities refined from crude in relation to costs of production at the Sarnia and Halifax Refineries.
>   (*c*) The elements embodied in the selling, distribution and administration expenses, added to the costs of production, in relation to selling prices for Imperial Oil Limited, as a whole and as specifically applied in the following marketing divisions—
>   (*d*) That such marketing divisions may be designated by your Sub-Committee.
> 4. That simultaneously with this investigation by the auditors into the aforementioned cost and selling factors of Imperial Oil Limited, they secure from the British American Oil Co., Limited, and from the McColl-Frontenac Oil Co., Limited, statements in such form as will render practicable a comparison of the relative costs and selling prices of the three corporations, thus offering means of disclosing any major variations without entailing the additional expense of investigating the smaller oil companies operating in Canada.

Our findings are summarized as follows:—

An examination was made into the general principles underlying the original of Exhibit No. 9 of Committee Minutes No. 3, dated March 17, 1932, showing a net profit of 1·01 cents per gallon of gasoline sold by Imperial Oil Limited as a whole in Canada in the year 1930, by a series of tests into the costs and selling prices of gasoline produced at the Sarnia and Halifax Refineries. As a result of our investigation, we prepared a Summary of Operations expressed in cents per Imperial gallon of Gasoline for the fiscal year ended December 31, 1930, embodying the Sarnia and Halifax Refineries, as specifically tested by us, and also for purposes of comparison the figures shown by the corporate books of the Company covering all of its refineries in Canada.

The aforementioned Summary of Operations in respect of gasoline of Imperial Oil Limited for the fiscal year 1930, is recapitulated as follows:—

—	In cents per Imperial Gallon				
	Refinery Costs	Marketing Costs	Total Costs	Average Selling Price	Average Net Profit
Retail Gasoline—					
Sarnia	11·27	7·02	18·29	20·22	1·93
Halifax	13·94	5·84	19·78	21·47	1·69
All Refineries	13·75	7·15	20·90	22·56	1·66
Wholesale Gasoline—					
Sarnia	10·18	2·89	13·07	13·12	0·05
Halifax	13·02	1·33	14·35	14·60	0·25
All Refineries	12·67	2·42	15·09	15·05	*0·04**
Total Gasoline—					
Sarnia	10·81	5·27	16·08	17·22	1·14
Halifax	13·76	4·93	18·69	20·09	1·40
All Refineries	13·34	5·34	18·68	19·69	1·01

*Loss.

Any required details of the Refinery Costs, Marketing Costs and Average Selling Price of gasoline supporting the Summary of Operations of Imperial Oil Limited for the fiscal year 1930 were given to the committee in our evidence.

The scope of our work at the Sarnia and Halifax refineries embodied tests of details to a point sufficient to establish the soundness of the basic accounting principles employed during 1930 by Imperial Oil Limited and which tests may be briefly summarized as covering the ascertainment of the following factors:—

(*a*) Total costs of all products.

(*b*) Division of total costs of all products between refinery and marketing operations.

(*c*) Division of refinery and marketing costs between gasoline and other products.

(*d*) Division of gasoline costs as between retail and wholesale trade.

(*e*) Average selling price of all gasoline.

(*f*) Division of average selling price of all gasoline between retail and wholesale trade.

(*g*) Average net profit on all gasoline.

(*h*) Division of average net profit between retail and wholesale trade.

In explanation of the main accounting principles which were found from our tests to be employed by Imperial Oil Limited in determining their net profit per gallon of gasoline sold in 1930, the following outline is submitted:—

TOTAL COSTS OF ALL PRODUCTS

The details comprising the total costs of all products are shown in Exhibit No. 9 of Committee Minute No. 3. Of particular concern to us in the examination of total costs were such major factors as—

(*a*) Affiliated company transactions—involving trade prices of crude and other materials, transportation, royalties and interest charges—of Imperial Oil Limited with Standard Oil Company of New Jersey and subsidiaries, the International Petroleum Company, Limited and subsidiaries operating in South America, the Royalite Oil Company, Limited and subsidiaries operating in Western Canada, and affiliated companies engaged in the transportation of products by pipe lines, by coastwise and inland lake tankers and by rail tank cars.

The term "Affiliated Companies" in this report embodies—

Companies directly or indirectly controlled through capital stock ownership by Imperial Oil Limited or its subsidiaries.

Departments of Imperial Oil Limited operating independently of the regular refinery and merchandising management.

Companies directly or indirectly controlling Imperial Oil Limited or its subsidiaries through capital stock ownership.

The term "Non-affiliated Companies" embodies all companies not classified in the previous paragraph relating to affiliations.

(*b*) Administrative Charges originating at Executive Headquarters but costed against refinery and marketing operations.

(*c*) Contingency Reserve charges included in costs applicable to Accounts Receivable.

(*d*) Inclusion of Additions and Betterments to plant and equipment in the accounts designated as repair costs.

(*e*) Fire Insurance rates, used in the operation of the Insurance Fund of the Company.

(*f*) Interest charges on any funded debt or advances payable or the equivalent in the form of rentals, for the operating use of the refinery and marketing properties.

(*g*) Depreciation policy and rates.

(*h*) Price basis of Inventories at beginning and end of fiscal year 1930.

(*i*) Effect on refinery and marketing profits in Canada of accounts maintained in the private books of the Company.

Our findings in the matter of total costs were as follows:—

(*a*) Crude oil purchases in the Mid-continent field of U.S.A. were made from both affiliated and non-affiliated companies on the basis of posted competitive well prices plus buying commission at fixed rates plus gathering charges and trunk pipe line charges on I.C.C. ratings whether transported by Imperial Oil Limited affiliations or outside companies.

(*b*) Crude oil purchases in the South American field from the International Petroleum group, the West India Oil Company and non-affiliated companies were made on the basis of a competitive price structure, f.o.b.

South American seaboard points, computed on the Mid-Continent posted well prices, according to specific gravities, and transportation differentials to the Gulf ports of the United States.

The crude oil production of the International Petroleum group in South America sold to Imperial Oil Limited aggregated 20 per cent of the total, the balance of 80 per cent being disposed of in world trading.

(*c*) Crude oil purchases in the Turner Valley field from both the Royalite Oil group and non-affiliated companies were made on the basis of the content value of the productions in competition with crude oil from the Montana and Mid-Continent districts plus laying down charges to the western refineries.

(*d*) Casinghead gasoline was purchased from both affiliated and non-affiliated companies at competitive prices, whilst compounding materials, grease ingredients, candle wicking, etc., were purchased in the main from non-affiliated companies.

(*e*) Transportation charges made by affiliations of Imperial Oil Limited owning and operating pipe lines in the United States were based on Interstate Commerce Commission rates and charges for coastwise and inland lake tankers and rail tankers, were based upon competitive rate structures of non-affiliated transportation companies.

Transportation charges, including those originating on pipe lines, as made by the International Petroleum group are embodied in the f.o.b. prices at South American seaboard points and automatically take into account the competitive transportation differentials to the Gulf ports of the United States.

(*f*) Royalty agreements were examined and it was found that the rates of costing royalties in respect of the gasoline cracking process as levied by affiliated companies were less than those levied by non-affiliated companies. The royalty costs—less any relative credits when earned—of affiliated companies are operated by a pooling arrangement and spread over the member companies on the basis of gasoline production.

(*g*) Administration charges originating at executive headquarters but costed against refining and marketing operations embodied such items as advertising, headquarters' salaries, travelling expenses, printing and stationery, annuities and pensions, etc.

(*h*) The Contingency Reserve Charge included in costs applying to Accounts Receivable is the subject of some doubt in our mind as to its sufficiency to meet the purposes for which it was created. It should be borne in mind, however, that neither the selling policy nor the resulting potential loss could be considered a normal recurring circumstance.

(*i*) Tests of the changes in the Property Accounts and Repair Accounts disclosed no improper treatment of Depreciation Reserves in the matter of property retirements, nor the inclusion of any capitalizable items in repair costs.

(*j*) Fire Insurance protection for the Company's investment in plant, equipment, and inventories of merchandise was not included in the costs of refining and marketing, ostensibly because the Company maintains and controls its own fire insurance funds. The Company could have quite properly included the equivalent of tariff insurance rates on all insurable property in determining the total operating costs for 1930.

(*k*) The depreciation policy of the company was found to be conservative from the point of this investigation. In this connection it was established that the property accounts were written up on an appraisal valuation some years ago, but depreciation was based upon the depreciated cost balances and not against appraisal valuations. The Income Tax return to the Dominion Government for 1930 shows that the rates producing the depreciation figure included in operating costs was some three-quarters of a million dollars under what was allowable by the Income Tax Department. This understatement of cost is due primarily to the fact that the Company depreciates on the basis of reducing property balances whereas they could quite properly depreciate upon the basis of original cost.

(*l*) Refinery inventories of crude oil, in-process products and finished products were priced upon the lower of cumulative costs or market valuations of the original crude oil content at both the beginning and the end of the year 1930. In-process products were first applied as finished products and inventory prices reduced by the cost of completing the specific refining processes. Depreciation and prorated administration charges were not included as cost elements at the beginning of the year 1930, whereas allowance was made for these factors in determining the basis for inventory pricing at the end of the year, thereby reducing the 1930 refinery costs.

In connection with the refinery inventories, it should be noted that losses due to falling prices of crude oil and other materials have been absorbed in refinery production costs during the year and are not related to the basis of pricing the respective inventories.

Marketing inventories were based upon refinery billing prices plus laying down charges, and include an element of profit anticipation affecting the costs for the year to the extent of the excess profit in the ending inventory over that in the beginning inventory for the year 1930.

(*m*) The private books of Imperial Oil Limited were made available to us for the purpose of reconciling the net profit from the refinery and marketing operations in Canada as submitted by the Company in evidence, with the final profit of the Company from all sources. The reconciliation was made and no items affecting the basis of the Company's statement of refinery and marketing earnings were disclosed as a result of the examination of the private books.

Our final conclusion in the matter of operating costs as a whole is that the Company's records showed no evidence of "cost loading" by reason of affiliations in the United States and South America or because of any unfavourable accounting practices but rather that the total costs, if anything, were understated because of the Company's outlined policy in the treatment of such matters as fire insurance premiums, depreciation rates, contingency reserve charges and inventory pricing.

The total costs are free of charges for interest as might be related against funded debt or as a charge imposed by a parent company in the form of rental for use and operation of the refineries and marketing stations and equipment. In other words, the financing of Imperial Oil Limited has been effected through the sale of capital stock and the investment of a proportion of surplus earnings in extensions of plant and equipment facilities.

DIVISION OF TOTAL COSTS OF ALL PRODUCTS BETWEEN REFINERY AND MARKETING OPERATIONS

A division of total costs of all products between refinery and marketing operations was made upon the basis of direct charges to the refinery up to the point of shipment and direct charges to the marketing operations covering all subsequent costs.

General Adiministration charges in the form of head office overhead were distributed between refinery and marketing operations, directly as far as practicable and the balance on the basis of the estimated proportion of the time or expense involved as between the two operating departments.

DIVISION OF REFINERY AND MARKETING COSTS BETWEEN GASOLINE AND OTHER PRODUCTS

The allocation of refinery costs between gasoline and other products was based upon the Federal Trade Commission method of computing costs of petroleum products supplemented by the process method to the extent that such items as Casinghead gasoline were charged direct to gasoline; compounding material was charged direct to compounded oils; ingredients for grease were charged direct to grease; supplies for candles such as wicking were charged to candle production.

An extract from the Report of the Federal Trade Commission on the Pacfic Coast Petroleum Industry issued on the 7th of April, 1921, under the heading of "Allocation of Costs to Products" is as follows:—

> The Commission has adopted the method of allocating costs to the various products on the basis of sales value. This method, as already stated, was generally approved by representatives of the petroleum refining business, as the fairest and most satisfactory method of computing such a cost for the purpose of considering the reasonableness of prices.
>
> This method of allocating the cost elements to the different products shows the highest cost for the most valuable and the lowest cost for the lowest priced product, and gives to each the same percentage of profit or loss. Table 77 shows the combined cost of each important petroleum product for the five large refining companies in California for the first six months of 1919, according to this method:—

TABLE 77.—ALLOCATION OF REFINING COST TO PRINCIPAL PRODUCTS, FOR FIVE LARGE REFINING COMPANIES, FIRST SIX MONTHS 1919

Product	Average yield from a bbl. of crude oil in gallons	Average f.o.b. Refinery price per gallon	Refinery realization per bbl. of crude oil	Percentage of realization	Total cost of quantity secured from a barrel of crude oil (1)	Cost per gallon
Gasoline	4·1496	$0·1516	$0·62908	27·6408	$0·3481	$0·084
Engine Distillate	1·4196	0·0811	0·11513	5·0586	0·0637	0·045
Kerosene	3·0240	0·0522	0·15785	6·9357	0·0874	0·029
Fuel and Gas Oil	29·9166	0·0347	1·03811	45·6130	0·5744	0·019
Lubricating Oil	0·9282	0·2052	0·19047	8·3690	0·1054	0·114
Asphaltum	0·4536	0·0707	0·03207	1·4091	0·0177	0·038
Other Products	1·1928	0·0949	0·11320	4·9738	0·0626	0·053
Total Products	41·0844					
Refining Loss	0·9156					
	42·0000	0·0542	2·27591	100·0000	1·2593	(2) 0·031

(1) Determined by allocating costs in proportion to value of products.
(2) Cost per gallon for all products.

> The quantity of each product secured from refining a 42 gallon barrel of crude petroleum is obtained by applying the average per cent of yield shown for the five large refining companies in California to a barrel of crude petroleum. The f.o.b. refinery price is secured by deducting the freight and marketing expenses from the sale price, and the refinery realization for each product is the products obtained by multiplying the quantity of that product refined from a barrel of crude by the f.o.b. refinery realized price. The percentage of realization is the quotient resulting from dividing the realization for each product by the total realization for all products. The total cost for each of the principal products produced is obtained by multiplying the total cost of refining a barrel of crude petroleum—that is, $1·259—by the percentage of realization for each product, as shown in column 4; while the cost per gallon for each product is secured by dividing the total cost of the quantity secured from a barrel of crude oil by the quantity produced.

In 1925 a publication in book form entitled "Accounting for the Petroleum Industry" was issued by David F. Morland, Associate of the Institute of Chartered Accountants in England and Wales, and Raymond W. McKee, member of the American Institute of Accountants, supported by J. Hugh Jackson, Professor of Accounting in the Harvard Graduate School of Business Administration. Extracts from this publication under the heading of "Cost Finding" set out some reasons why the Federal Trade Commission method of basing costs is directly related to the actual costs of refining gasoline:—

> The fact that each of the products has a different value in the world's markets, and requires in its manufacture both a different constituent element of the crude oil and a different operating process, indicates that in allocating to such products the cost of their production, not only the quantities produced, but the values of such quantities, must be considered.
>
> The fact that the gasoline content of crude petroleum is usually the main objective of refiners, and that the posted market price for crude oil is graduated according to its specific gravity, indicates that the gasoline extracted carries with it a portion of the cost of the crude oil entirely disproportionate to the quantity of gasoline recovered. The same is true in varying degree in the case of kerosene, lubricating oil stock, and the other products; for as each successive product is removed, the residuum sustains a decrease in value which is attributable to two factors:—
>
> 1. Decrease in Quantity.
> 2. Lower value of remaining constituent elements.
>
> From the foregoing facts it would appear that we have reason for the general statement that the cost of crude oil should be allocated to each of its constituent elements in the proportion that the product of the quantity and value of such commodity bears to the similar total for all the constituent commodities.
>
> A further effect of this procedure (Federal Trade Commission Method) is to cause each of the products obtained to absorb a share of the evaporation loss from refining, in proportion to the marketable value of good production. This result is substantiated by the facts; for the production of gasoline, the product with the highest value and the one which will therefore bear the highest share per gallon of the evaporation loss, is responsible in processing for a large part of the loss.

The Federal Trade Commission method of cost finding as applied to the Pacific Coast Petroleum Industry in the report issued 7th April, 1921, is amply justified in its use by Imperial Oil Limited because in addition to the facts hereinbefore set out in the matter of allocation of costs, Imperial Oil Limited have made large investments in refinery cracking plants for the express purpose of securing the maximum gasoline yield from crude oil, according to the changing trend of trade requirements. The operation of these cracking plants involves increasing cost ratios with each advanced process in the refining of gasoline.

In this connection it should be noted that the average gasoline yield from a barrel of crude oil for five large refining companies in the Pacific Coast investigation was less than 10 per cent, whereas the equivalent gasoline yield in the refineries of Imperial Oil Limited in 1930 aggregated 52 per cent at Sarnia; 32 per cent at Halifax; 61 per cent at Regina and an average for all Imperial Oil Refineries of 39 per cent. As against this increased ratio of gasoline production from crude oil secured by Imperial Oil Limited over the figures given for the Pacific Coast refineries, the average f.o.b. refinery price of Imperial Oil Limited gasoline in 1930 in relation to the average refinery price of all products shows a decrease in comparison with the Pacific Coast Refineries ratio, thereby fully justifying the application of the Federal Trade Commission method to the production cost of Imperial Oil Limited.

The allocation of marketing costs between gasoline and other products was based on direct charges for freight from refinery to marketing stations, sales taxes and packages.

Marketing expenses including tank wagon and service station operation together with provincial and municipal taxes were distributed on the basis of gallonage sales, after eliminating for the purposes of allocation the bulk shipments of various products, more particularly fuel oil, moving directly from refineries to consumers.

Marketing costs as a whole, applicable to gasoline, including transportation as shown in the Summary of Operations, were found to be legitimate items of cost from an accounting point of view, but from an economic standpoint the proportion of marketing expenses to the cost of crude oil, to the refinery costs—other than crude—and to the total costs, is high as may be seen from the following summary of retail operations expressed in terms of cents per Imperial gallon of gasoline converted to percentages.

—	Sarnia	Halifax	All Refineries
Total Costs	100%	100%	100%
Cost of Crude Oil and Other Materials—including transportation	46·6	57·7	53·1
Refinery Costs—other than crude oil	15·0	12·8	12·7
Marketing Costs—including transportation	38·4	29·5	34·2

The high cost of marketing in the gasoline industry, like many other industries in Canada, is due principally to the three following factors:—

(*a*) Territorial spread of the country which has been likened unto a "shoe-lace" and the resulting high transportation costs, due to comparative sparsity of population.

(*b*) Climatic conditions also affecting the cost of transportation and selling overhead in the winter months.

(c) Competitive conditions obtaining in the distribution and marketing of gasoline as may be evidenced by the many duplications of tank wagon deliveries and service stations in operation.

As to the number of service stations owned and leased to operators by Imperial Oil Limited in Canada, it should be noted that in 1927 they controlled 38 per cent of the total, whilst at the end of 1930 their control had dropped to 21 per cent of the total, indicating that in the matter of the construction of service stations, Imperial Oil Limited did not keep pace with the development of service station facilities from 1927 to 1930.

The solution of the high marketing costs is indeed a difficult one in view of the fact that the territorial and climatic conditions in Canada are not subject to human manipulation and change, whereas the elimination of marketing competition with the object of reducing duplication costs to the consumer would tend, under present conditions, towards the more undesirable position of a monopoly in the distribution and marketing of gasoline in Canada.

Contingency Reserve charges were allocated on the basis of dollar sales in connection with which the reserves were specifically created.

DIVISION OF GASOLINE COSTS AS BETWEEN RETAIL AND WHOLESALE TRADE

Retail costs of Imperial Oil Limited cover those applicable to tank wagon sales, tank car sales to large consumers and retailers, direct sales to farmers and coastal fishermen, both east and west, at tank wagon prices and consumer sales through their own service stations. The general accounts of the Company were not separated between tank wagon and service station business but from a special analysis it was determined that as far as owned service stations were concerned the spread between the tank wagon prices and consumer prices was exceeded by costs of operating the service stations, thereby eliminating any element of profit to Imperial Oil Limited beyond tank wagon business.

Wholesale costs cover those related to tank car and tank ship trade with jobbers.

The refinery costs of gasoline are allocated between retail and wholesale trade mainly on the basis of gallonage sales. Provision is made in the allocation for the extra lead content of retail gasoline over that contained in the wholesale product.

The depreciation and general administration expenses and provincial and municipal taxes should be considered as part of the manufacturing expense allocation to wholesale gasoline in conjunction with the resultant decrease in refinery costs applicable to retail gasoline.

Dominion Income Tax is divided between retail and wholesale gasoline on the basis of the relative net profits.

The allocation of marketing costs between retail and wholesale gasoline was based on direct charges for freight from refinery to marketing stations, sales taxes and packages.

Provincial and municipal taxes are applied directly to retail gasoline on the ground that shipments to the wholesale trade are made direct from the various refineries to the wholesalers, who in turn are obliged to absorb the provincial and municipal taxes on their own marketing warehouses and equipment.

Marketing expenses were applied direct to retail gasoline less an allowance to take care of clerical costs of contract and accounting work on the ground that the aforementioned expenses are the only ones involved from a wholesale marketing standpoint due to the fact that shipments move directly from refineries to wholesalers.

Contingency Reserve charges all apply to retail gasoline because no relative provision was made in respect to wholesale gasoline Accounts Receivable.

AVERAGE SELLING PRICE OF ALL GASOLINE

The average selling price of all gasoline was determined on the basis of the total sales value of gasoline divided by total gallonage involved in the sales.

An examination was made by us into the basis of establishing prices of gasoline of Imperial Oil Limited during the years 1929, 1930 and 1931, with a view to determining the following factors:—

(*a*) Constancy of gasoline price movements up and down in relation to fluctuations in crude oil posted prices plus added charges of excise tax, sales tax, freight surcharge and exchange.

(*b*) A comparison of Imperial Oil gasoline prices with competitive prices in United States.

(*c*) Relationship of the difference between the gasoline prices based upon crude and the competitive United States prices applied to the specific and dumping duties.

Taking 1929 as a starting point with a Mid-Continent crude oil well price of $1.45 per barrel and working up to the end of 1931, during which latter year crude fell to 18 cents a barrel at the well plus the fluctuating elements of additional costs, it was determined that the Imperial Oil Limited tank wagon prices were kept in definite line with the fluctuations in the price of crude oil regardless entirely of specific and dumping duties up to October, 1931, from which latter date to December, 1931, the refinery prices of crude, including the added charges mentioned, advanced without corresponding increases in the price of gasoline. Our tests embodied the following points:—

Calgary,	Regina,	Hamilton,
Edmonton,	Brandon,	Toronto,
Saskatoon,	Winnipeg,	Border Cities.

It was also found that the price of kerosene normally moving in line with gasoline was reduced to the Western farmer in the middle of 1931 to a greater extent than was warranted by the reduction in the price of crude oil.

A comparison of United States competitive gasoline prices with Imperial Oil prices shows the following result:

(*a*) Imperial Oil service station and tank wagon prices below United States prices without any specific or dumping duties.

(*b*) Imperial Oil service station and tank wagon prices over competitive United States prices after allowance for specific duty in part or in whole.

(*c*) Imperial Oil service station and tank wagon prices over competitive United States prices after allowance for specific duty plus dumping duty in part or in whole.

We placed before the Committee detailed information covering various points in Canada showing differences between United States competitive prices and those of Imperial Oil, Limited, and it was stated in conclusion of our evidence in this respect that no ground existed for any statement contending that the Company took undue advantage of either the specific or dumping duty because, as hereinbefore stated, the establishment of gasoline prices by Imperial Oil, Limited, to consumers during the years 1929, 1930 and 1931 were based entirely on the fluctuation of crude and added charges regardless of existing specific and dumping duties. Our findings further brought out the fact that the reason for the differences between United States competitive prices and those of Imperial Oil, Limited, was due to the demoralized condition of the gasoline industry in the United States caused by the overproduction of gasoline and the various tax evasion rackets, which in turn resulted in the price of United States gasoline falling far below the relative movements in crude oil prices. A further point brought out in our findings was the higher quality of Imperial Oil, Limited, gasoline in comparison with that at competitive United States points upon which the comparative price structure was based.

In the application of these tests it was also found that the zoning policy determining the selling prices of retail gasoline by Imperial Oil, Limited, resulted in the spreading of transportation differentials to the comparative disadvantage of gasoline consumers at centres of trade in proximity to some refineries, whereas the zoning price basis frequently operated to the advantage of gasoline consumers in the districts outlying from the refineries. It was also found that tank wagon gasoline prices are given to farmers and coastal fishermen both east and west.

In this connection it should be borne in mind that in such districts as have no dealer competition or where any dealer association arrangements exists, the spread between Imperial Oil Limited, tank wagon prices and the price to the consumer is entirely in the hands of the independent dealers.

Wholesale prices are not zoned to fluctuate at a fixed margin under retail and, in some cases, have been adjusted upward in order to prevent wholesale business being done at a loss, as was the case in 1930 when the net loss per Imperial gallon on wholesale trade was ·04 cents.

DIVISION OF AVERAGE SELLING PRICE OF ALL GASOLINE BETWEEN RETAIL AND WHOLESALE TRADE

The division of the average selling price of all gasoline between retail and wholesale trade was based upon the respective dollar sales and gallonage.

AVERAGE NET PROFIT ON ALL GASOLINE

The average net profit on all gasoline was determined on the basis of the total profit divided by the total gallonage sold.

A summary of the average net profit on all gasoline sold by Imperial Oil, Limited, in 1930 is as follows:—

Sarnia Refinery, 1·14 cents per Imperial gallon.
Halifax Refinery, 1·40 cents per Imperial gallon.
All Refineries, 1·01 cents per Imperial gallon.

The net gasoline profit at Halifax is higher than Sarnia principally because the Sarnia trade involves a greater proportion of the wholesale business.

The average gasoline profit for Sarnia and Halifax combined is higher than the average for all refineries partly because gasoline is sold to the individual farmers in Western Canada at tank wagon prices.

DIVISION OF AVERAGE NET PROFIT BETWEEN RETAIL AND WHOLESALE TRADE

The average net profit as betwen retail and wholesale trade was based upon the determined net profits divided by the respective gallonage sales.

A summary of the average net profit for both the retail and wholesale trade of the Imperial Oil, Limited, in 1930 is as follows:—

	Retail	Wholesale
Sarnia, in cents per Imp. Gal..	1.93	.05
Halifax, in cents per Imp. Gal..	1.69	.25
All Refineries, in cents per Imp. Gal..	1.66	.04—Loss

1930 AND 1931 PRICE TREND OF CRUDE OIL AT THE WELL AND GASOLINE IN CANADA—IMPERIAL OIL LIMITED

As the 1931 operating figures of Imperial Oil Limited are not yet available the committee instructed us to base our investigation on the 1930 accounts and secure sufficient information so as to indicate the probable trend of operating results as between 1930 and 1931. This was done on the basis of the average price trend of crude oil with added costs and the average gasoline prices of Imperial Oil Limited in the two years.

Our findings are that the average spread between crude oil with added costs and tank wagon gasoline prices in Canada for the years 1930 and 1931 were equitably maintained, whereas the average spread between crude oil and wholesale prices showed an increasing tendency in 1931 due to the reduction of differentials to certain wholesalers, some of whom were also engaged in competitive refining.

COMPARISON OF IMPERIAL OIL LIMITED RESULTS WITH THOSE OF THE BRITISH AMERICAN OIL COMPANY LIMITED AND MCCOLL FRONTENAC OIL COMPANY LIMITED

The Committee Order dated 22nd March, 1932, to us covering the comparison of Imperial Oil Limited operating results with those of the British American Oil Company, Limited, and McColl Frontenac Oil Company, Limited, reads as follows:—

> That simultaneously with this investigation by the auditors into the aforementioned cost and selling factors of Imperial Oil Limited, they secure from the British American Oil Co., Limited, and from McColl Frontenac Oil Co., Limited, statements in such form as will render practicable a comparison of the relative costs and selling prices of the three corporations, thus offering means of disclosing any major variations without entailing the additional expense of investigating the smaller oil companies operating in Canada.

In accordance with the aforementioned Committee order we secured from the British American Oil Company, Limited, and McColl Frontenac Oil Company, Limited, the required operating statements in similar form to those prepared in connection with the investigation of Imperial Oil Limited, but in view of our findings on the net profit on gasoline sales by Imperial Oil Limited we have deferred our examination of these statements pending further instructions from the Committee.

CONCLUSION

Our conclusions, based upon the examination of the records of Imperial Oil Limited in respect to gasoline are summarized as follows:—

(*a*) That the Company's records relating to the 1930 operating costs charged to gasoline showed no evidence of "cost loading" by reason of affiliations in the United States and South America or because of unfavourable accounting practices but rather that the gasoline costs, if anything, were not fully shown because of the Company's stated policies in the treatment of such matters as fire insurance premiums, depreciation rates, contingency reserve charges and inventory pricing.

The total costs were free of charges for interest as might be related against funded debt or as a charge imposed by a parent company in the form of rental for use and operation of the refineries and marketing stations and equipment. In other words, the financing of Imperial Oil Limited has been effected through the sale of capital stock and the investment of a proportion of surplus earnings in extensions of plant and equipment facilities.

(*b*) That the 1930 marketing costs charged to gasoline, whilst as a whole legitimate from an accounting point of view, were high in relation to total costs. The high cost of marketing is attributed to territorial and climatic conditions of the country and competitive conditions obtaining in the distribution and marketing of gasoline in Canada. In view of the fact that the territorial and climatic conditions in Canada are not subject to human manipulation and change the solution of the problem would seem to lie in the elimination of marketing competition with the object of reducing duplication costs to the consumer but this would undoubtedly tend, under present conditions, towards the more undesirable position of a monopoly in the distribution and marketing of gasoline in Canada.

(*c*) That variations in gasoline prices in 1929. 1930 and 1931 to consumers were not based directly upon ascertained refinery costs but upon the variations in the market cost of crude oil with fluctuating additional charges for excise tax, sales tax, freight surcharge and exchange, and as a result it automatically follows that no grounds exist for any statement contending that the Company has taken unfair advantage of either the specific or dumping duties in its gasoline prices to consumers during the period under investigation.

(*d*) That the reason for the unfavourable comparisons at some points between United States competitive prices and those of Imperial Oil is due to the demoralized condition of the gasoline industry in the United States caused by the overproduction of gasoline and the various tax evasion rackets which, in turn, resulted in the price of United States gasoline falling far below the relative movements in crude oil prices.

(*e*) That the zoning basis of establishing gasoline prices results in the spreading of transportation differentials to the comparative disadvantage of gasoline consumers at centres of trade in proximitey to some refineries, whereas the zoning basis frequently operated to the advantage of gasoline consumers in the territories outlying from the refineries. It was also found that tank wagon gasoline prices are given to farmers and coastal fishermen both east and west.

(*f*) That in such outlying districts as have no dealer competition or where any dealer association arrangements exist, the spread between Imperial Oil Limited tank wagon prices and the prices to the consumer is entirely in the hands of the independent dealers.

(*g*) That apart altogether from the basis used in the establishing of gasoline prices, the spread between such selling prices and the combined costs of refining and marketing showed an average net profit of not exceeding 1·01 cents per Imperial gallon of all gasoline sold by Imperial Oil Limited in the year 1930.

(*h*) That in view of the fact our investigation of Imperial Oil Limited disclosed no improper accounting practices in the matter of costs or unstated profits and because Imperial Oil Limited occupy the leading position in the gasoline industry in Canada, we are of the opinion that the expenses which would be involved in extending our investigation into the records of the British American Oil Company, Limited, the McColl Frontenac Oil Company, Limited and other oil companies in Canada would not be justified in view of our findings on the average net profit per gallon of gasoline sold by Imperial Oil Limited in 1930.

Yours faithfully,

GEORGE A. TOUCHE & CO.,

Chartered Accountants.

IMPERIAL OIL LIMITED

SUMMARY OF OPERATIONS—IN CENTS PER IMPERIAL GALLON OF GASOLINE, FISCAL YEAR 1930

—	Retail gasoline			Wholesale gasoline			Total gasoline		
	Sarnia	Halifax	All refineries	Sarnia	Halifax	All refineries	Sarnia	Halifax	All refineries
Refinery costs—(in cents per Imp. Gal.)— Crude and other materials	8·52	11·41	11·10	8·33	11·41	10·96	8·44	11·41	11·06
Manufacturing expenses	1·85	1·59	1·71	1·84	1·59	1·71	1·85	1·59	1·71
Depreciation and general administration	0·70	0·75	0·73	....	....	....	0·40	0·60	0·45
Provincial and municipal taxes	0·03	0·04	0·06	....	....	....	0·02	0·04	0·04
Dominion income tax	0·17	0·15	0·15	0·01	0·02	....	0·10	0·12	0·08
Total refinery costs—(in cents per Imp. Gal.)	11·27	13·94	13·75	10·18	13·02	12·67	10·81	13·76	13·34
Marketing costs—(in cents per Imp. Gal.)— Freight from refinery to marketing stations	2·55	1·86	2·45	2·77	1·20	2·29	2·64	1·73	2·39
Provincial and municipal taxes	0·22	0·20	0·22	....	....	....	0·13	0·16	0·13
Sales taxes	0·11	0·13	0·13	0·11	0·12	0·12	0·11	0·12	0·13
Marketing expenses	4·05	3·63	3·96	0·01	0·01	0·01	2·34	2·90	2·45
Packages	0·02	0·02	0·02	....	....	....	0·01	0·02	0·01
Contingency reserve	0·07	....	0·37	....	....	....	0·04	....	0·23
Total marketing costs—(in cents per Imp. Gal.)	7·02	5·84	7·15	2·89	1·33	2·42	5·27	4·93	5·34
Total costs—(in cents per Imp. Gal.)	18·29	19·78	20·90	13·07	14·35	15·09	16·08	18·69	18·68
Average selling price—(in cents per Imp. Gal.)	20·22	21·47	22·56	13·12	14·60	15·05	17·22	20·09	19·69
Average net profit—(in cents per Imp. Gal.)	1·93	1·69	1·66	0·05	0·25	*0·04**	1·14	1·40	1·01

*Loss.

TORONTO, ONT., April 25, 1932.

SARNIA REFINERY—YEAR 1930

Product	Imperial Gallons Sold	Per Cent	Gross Value of Sales Receipts Total	Gross Value of Sales Receipts Per I.G.	1 Deduct Sales Charges: Freight Refinery to Marketing Stations Total	Freight Per I.G.	Taxes: Provincial Income, Provincial Corporate, Municipal and School, etc. Exclusive of Prov. Gasoline Tax Total	Taxes Per I.G.	Sales Tax Total	Sales Tax Per I.G.	Marketing Expense Total	Marketing Expense Per I.G.	Total Cost of Packages Total	Total Cost of Packages Per I.G.	Contingency Reserve Total	Contingency Reserve Per I.G.
			$ cts.	cts.	$ cts.	cts.	$ cts.	cts.	$ cts.	cts.	$ cts.	cts.	$ cts.	cts.	$ cts.	cts.
Gasoline	75,667,057	30·69	15,301,879 08	20·22	1,927,592 47	2·55	169,323 71	0·22	82,765 04	0·11	3,060,193 60	4·05	16,573 30	0·02	52,913 21	0·07
" Jobbers	55,298,154	22·43	7,255,145 09	13·12	1,533,028 44	2·77	....	....	57,262 86	0·11	5,639 94	0·01	....	....	....	....
	130,965,211	53·12	22,557,024 17	17·22	3,460,620 91	2·64	169,323 71	0·13	140,027 90	0·11	3,065,833 54	2·34	16,573 30	0·01	52,913 21	0·04
Ref'd Oil and Dist.	11,289,293	4·58	2,376,186 26	21·05	342,906 82	3·03	23,774 30	0·21	11,076 37	0·10	430,843 54	3·82	10,877 89	0·10	10,601 02	0·09
" " Jobbers	2,930,026	1·19	412,697 56	14·08	122,826 07	4·19	....	....	3,565 93	0·12	308 21	0·01	....	....	....	....
	14,219,319	5·77	2,788,883 82	19·61	465,732 89	3·28	23,774 30	0·17	14,642 30	0·10	431,151 75	3·03	10,877 89	0·08	10,601 02	0·07
Lubricating Oils	11,048,215	4·48	5,985,143 55	54·17	752,625 87	6·81	24,642 62	0·22	44,811 11	0·41	446,663 64	4·04	303,306 05	2·75	78,375 92	0·71
" Jobbers	4,184,091	1·70	1,008,035 19	24·09	126,778 90	3·03	....	....	12,616 57	0·30	536 11	0·01	26,897 09	0·64	....	....
	15,232,306	6·18	6,993,178 74	45·91	879,404 77	5·77	24,642 62	0·16	57,427 68	0·38	447,199 75	2·94	330,203 14	2·17	78,375 92	0·51
Fuel Oils and Still Gas	66,132,399	26·83	4,169,682 95	6·31	628,301 61	0·95	20,711 72	0·03	241 01	....	377,029 06	0·57	216 30	....	362 57	0·01
Asphalt	6,042,363	2·45	504,297 16	8·35	103,375 38	1·71	1,135 96	0·02	3,957 09	0·07	20,624 21	0·34	22,710 45	0·38	6 94	....
Coke	10,888,671	4·42	374,322 67	3·44	367 23	....	432 32	0·01	1,001 61	0·01	7,923 00	0·07	....	....	....	....
Grease	1,909,816	0·77	1,578,229 22	82·64	142,256 33	7·45	4,012 09	0·21	10,129 17	0·53	72,927 87	3·82	200,365 20	10·49	23,036 71	1·21
Wax	1,002,242	0·41	472,289 94	47·12	36,992 07	3·69	1,044 04	0·10	2,301 73	0·23	18,973 72	1·89	17,262 70	1·72	1,064 62	0·11
Candles	131,646	0·05	189,409 79	143·88	12,211 42	9·28	350 50	0·27	1,635 09	1·24	6,309 22	4·79	14,413 06	10·95	1,375 83	1·04
Total	246,523,973	100·00	39,627,318 46	16·07	5,729,262 61	2·32	245,427 26	0·10	231,363 58	0·09	4,447,972 12	1·80	612,622 04	0·25	167,736 82	0·07

SARNIA REFINERY—YEAR 1930

Product	Net Realization Netted back to Refinery — Total	Net Realization — Per I.G.	Total Cost crude oil and other Material — Total	Total Cost — Per I.G.	2 Deduct Manufacturing Charges: Manufacturing Expenses — Total	Manufacturing Expenses — Per I.G.	Depreciation and General Administration — Total	Depreciation — Per I.G.	Taxes: Provincial Income, Provincial Corporate, Municipal and School Tax, etc. — Total	Taxes — Per I.G.	3 Dominion Income Tax — Total	Dominion Income Tax — Per I. G.	Total Expenses 1, 2, 3 — Total	Total Expenses — Per I.G.	Net Earnings — Total	Net Earnings — Per I.G.
	$ cts.	cts.	$ cts.	cts.	$ cts.	cts.	$ cts.	cts.	$ cts.	cts.	$ cts.	cts.	$ cts.	cts.	$ cts.	cts.
Gasoline	9,992,517 75	13·20	6,448,639 96	8·52	1,397,281 30	1·85	527,550 29	0·70	24,360 74	0·03	132,286 91	0·17	13,839,480 53	18·29	1,462,398 55	1·93
" Jobbers	5,659,213 85	10·23	4,606,456 27	8·33	1,021,143 66	1·84	....	....	....	....	5,189 70	0·01	7,228,720 87	13·07	26,424 22	0·05
	15,651,731 60	11·95	11,055,096 23	8·44	2,418,424 96	1·85	527,550 29	0·40	24,360 74	0·02	137,476 61	0·10	21,068,201 40	16·08	1,488,822 77	1·14
Ref'd Oil and Dist	1,546,106 32	13·70	1,004,800 41	8·90	232,550 75	2·06	63,894 18	0·57	2,950 45	0·03	17,478 51	0·15	2,151,754 24	19·06	224,432 02	1·99
" " Jobbers	285,997 35	9·76	260,786 92	8·90	60,356 46	2·06	....	....	....	....	....	....	447,843 59	15·28	*35,146 03*	*1·20*
	1,832,103 67	12·88	1,265,587 33	8·90	292,907 21	2·06	63,894 18	0·45	2,950 45	0·02	17,478 51	0·12	2,599,597 83	18·28	189,285 99	1·33
Lubricating Oils	4,334,718 34	39·23	....	....	....	....	....	....	....	....	....	....	....	....	....	....
" Jobbers	841,206 52	20·11	....	....	....	....	....	....	....	....	....	....	....	....	....	....
	5,175,924 86	33·98	3,745,263 33	24·59	754,532 25	4·95	164,592 13	1·08	7,600 39	0·05	42,599 49	0·28	6,531,841 47	42·88	461,337 27	3·03
Fuel Oils and Still Gas	3,142,820 68	4·75	2,182,448 23	3·30	506,153 47	0·76	110,411 29	0·17	5,098 48	0·01	28,632 24	0·04	3,859,605 98	5·84	310,076 97	0·47
Asphalt	352,487 13	5·83	250,849 41	4·15	54,332 86	0·90	11,852 06	0·19	547 29	0·01	2,950 68	0·05	472,342 33	7·82	31,954 83	0·53
Coke	364,598 51	3·35	253,607 58	2·33	58,826 55	0·54	12,832 30	0·12	592 56	......	3,274 78	0·03	338,857 93	3·11	35,464 74	0·33
Grease	1,125,501 85	58·93	888,419 32	46·52	124,720 79	6·53	33,041 21	1·73	2,557 47	0·13	6,489 04	0·34	1,507,955 20	78·97	70,274 02	3·67
Wax	394,651 06	39·38	292,437 54	29·18	52,683 78	5·25	13,957 06	1·40	1,080 31	0·11	2,915 76	0·29	440,713 33	43·97	31,576 61	3·15
Candles	153,114 67	116·31	119,169 81	90·53	18,278 05	13·88	4,842 25	3·68	374 80	0·28	883 35	0·67	179,843 38	136·61	9,566 41	7·27
Total	28,192,934 03	11·44	20,052,878 78	8·14	4,280,859 92	1·74	942,972 77	0·38	45,162 49	0·02	242,700 46	0·10	36,998,958 85	15·01	2,623,359 61	1·06

HALIFAX REFINERY—YEAR 1930

Product	Imperial Gallons Sold	Per Cent	Gross Value of Sales Receipts		1 Deduct Sales Charges											
					Freight Refinery to Marketing Stations		Taxes: Provincial Income, Provincial Corporate, Municipal and School, etc. Exclusive of Prov. Gasoline Tax		Sales Tax		Marketing Expense		Total Cost of Packages		Contingency Reserve	
			Total	Per I.G.	Total	Per I.G.	Total	Per I.G.	Total	Per I.G.	Total	Per I.G.	Total	Per I.G.	Total	Per I.G.
			$ cts.	cts.	$ cts.	cts.	$ cts.	cts.	$ cts.	cts.	$ cts.	cts.	$ cts.	cts.	$ cts.	cts.
Gasoline	40,621,847	30·12	8,721,838 78	21·47	756,233 43	1·86	81,265 61	0·20	50,112 69	0·13	1,475,546 54	3·63	8,943 45	0·02	......	......
" Jobbers	10,195,850	7·56	1,488,216 41	14·60	122,843 21	1·20	......	......	11,746 08	0·12	1,039 89	0·01	......	......	......	......
	50,817,697	37·68	10,210,055 19	20·09	879,076 64	1·73	81,265 61	0·16	61,858 77	0·12	1,475,586 43	2·90	8,943 45	0·02	......	......
Ref'd Oil and Dist.	6,236,348	4·62	1,377,674 50	22·09	117,641 85	1·89	12,611 54	0·20	6,004 59	0·10	228,989 05	3·67	5,924 14	0·09	......	......
" " Jobbers	412,796	0·31	58,935 96	14·28	6,715 40	1·63	......	......	509 26	0·12	43 44	0·01	......	......	......	......
	6,649,144	4·93	1,436,610 46	21·60	124,357 25	1·87	12,611 54	0·19	6,513 85	0·10	229,032 49	3·44	5,924 14	0·09		
Lubricating Oils	154,090	0·11	20,956 24	13·60	2,403 80	1·56	339 00	0·22	......	......	6,225 24	4·04	......	......	......	......
" Jobbers	......	......	......	......	......	......	......	......	......	......	......	......	......	......	......	......
Fuel Oils and Still Gas.	74,656,595	55·36	3,377,970 16	4·52	372,329 43	0·50	19,686 75	0·02	100 58	......	357,453 07	0·48	342 10	......	......	......
Asphalt	342,342	0·25	33,681 55	9·84	6,317 15	1·84	71 09	0·02	192 62	0·06	1,290 92	0·38	1,268 33	0·37	......	......
Coke	2,250,139	1·67	71,957 19	3·20	599 66	0·02	205 17	0·01	......	......	3,725 38	0·17	......	......	......	......
Total	134,870,007	100·00	15,151,230 79	11·23	1,385,083 93	1·03	114,179 16	0·08	68,665 82	0·05	2,074,313 53	1·54	16,478 02	0·01	......	......

HALIFAX REFINERY—YEAR 1930—*Concluded*

Product	Net Realization Netted back to Refinery		Total Cost of crude oil and other Material		2 Deduct Manufacturing Charges						3 Dominion Income Tax		Total of Expenses 1, 2, 3		Net Earnings	
					Manufacturing Expenses		Depreciation and General Administration		Taxes: Provincial Income, Provincial Corporate Municipal and School Tax, etc.							
	Total	Per I.G.	Total	Per I.G.	Total	Per I.G.	Total	Per I.G.	Total	Per I.G.	Total	Per I.G.	Total	Per I.G.	Total	Per I.G.
	$ cts.	cts.	$ cts.	cts.	$ cts.	cts.	$ cts.	cts.	$ cts.	cts.	$ cts.	cts.	$ cts.	cts.	$ cts.	cts.
Gasoline	6,349,737 06	15·63	4,635,814 12	11·41	643,714 83	1·59	303,201 40	0·75	17,878 13	0·04	63,326 38	0·15	8,036,036 58	19·78	685,802 20	1·69
" Jobbers	1,352,587 23	13·27	1,163,959 68	11·41	161,573 94	1·59	......	......	......	......	2,286 93	0·02	1,463,449 73	14·35	24,766 68	0·25
	7,702,324 19	15·16	5,799,773 80	11·41	805,288 77	1·59	303,201 40	0·60	17,878 13	0·04	65,613 31	0·12	9,499,486 31	18·69	710,568 88	1·40
Ref'd Oil and Dist.	1,006,503 33	16·14	741,885 81	11·89	105,920 53	1·71	42,520 20	0·69	2,507 18	0·04	9,232 66	0·14	1,273,237 55	20·42	104,436 95	1·67
" " Jobbers	51,667 86	12·52	49,107 22	11·89	7,011 14	1·71	......	......	......	......	......	......	63,386 46	15·36	*4,550 50*	*1·08*
	1,058,171 19	15·91	790,993 03	11·89	112,931 67	1·71	42,520 20	0·64	2,507 18	0·04	9,232 66	0·13	1,336,624 01	20·10	99,986 45	1·50
Lubricating Oils	11,988 20	7·78	9,304 97	6·04	1,331 46	0·86	501 31	0·33	29 56	0·02	69 39	0·04	20,204 73	13·11	751 51	0·49
" Jobbers	......	......	......	......	......	......	......	......	......	......	......	......	......	......	......	......
Fuel Oils and Still Gas	2,628,058 23	3·52	1,964,194 57	2·63	281,058 28	0·38	105,821 99	0·14	6,239 74	0·01	22,886 88	0·03	3,130,113 39	4·19	247,856 77	0·33
Asphalt	24,541 44	7·17	18,609 94	5·44	2,662 91	0·78	1,002 62	0·29	59 12	0·02	186 55	0·05	31,661 25	9·25	2,020 30	0·59
Coke	67,426 98	3·00	49,908 48	2·22	7,141 45	0·32	2,688 84	0·12	158 55	0·01	636 51	0·02	65,064 04	2·89	6,893 15	0·31
Total	11,492,510 33	8·52	8,632,784 79	6·40	1,210,414 54	0·90	455,736 36	0·34	26,872 28	0·02	98,625 30	0·07	14,083,153 73	10·44	1,068,077 06	0·79

COMPARISON OF UNITED STATES AND CANADIAN CITIES RETAIL GASOLINE PRICES
(Without Considering Duties)

SEPTEMBER 1ST, 1930.

U.S. Motor Group 3 6·00c. W.G.=7·20c. I.G.	Halifax vs. New York	St. John vs. Augusta, Me.	Montreal vs. Manchester, N.H.	Sherbrooke vs. Burlington, Vt.	Toronto vs. Buffalo	Border Cities vs. Detroit
Max. 1930	16·30	17·80	17·40	18·30	16·80	17·80
Min. 1930	13·30	14·80	14·40	15·30	13·80	9·50
Posted Retail Price U.S. Cities	16·30	17·80	17·40	18·30	16·80	16·80
Converted to I.G.	19·56	21·36	20·88	21·96	20·16	20·16
Difference in Freight	3·00	2·56	0·80	1·12	0·76	0·60
Freight Surcharge Nil						
Sales Tax 1%	0·07	0·07	0·07	0·07	0·07	0·07
Exchange Nil						
Total	22·63	23·99	21·75	23·15	20·99	20·83
Canadian Retail Prices	24·00	24·00	24·00	25·00	23·00	22·00
Difference in favour U.S. Prices	1·37	0·01	2·25	1·85	2·01	1·17
Bradford Basis (7·00c. W.G.=8·40c. I.G.)	19·56	21·36	20·88	21·96	20·16	20·16
Difference in freight	2·96	2·52	0·40	0·24	1·08	
Freight Surcharge Nil						
Sales Tax 1%	0·08	0·08	0·08	0·08	0·08	0·08
Exchange Nil						
Total	22·60	23·96	21·36 White gaso-line	22·28 White gaso-line	21·32 White gaso-line	20·24 White gaso-line
Max. 1930	26·00	26·00	24·00	23·00	22·00	
Canadian Retail Prices	24·00	24·00	24·00 24·00	25·00 25·00	23·00 23·00	22·00 22·00
Min. 1930	23·00	23·00	23·00	22·00	21·00	
Difference in favour U.S. Prices	1·40	0·04	2·64 2·64	2·72 2·72	1·68 1·68	1·76 1·76

COMPARISON OF UNITED STATES AND CANADIAN CITIES TANK WAGON GASOLINE PRICES

(Without Considering Duty)

SEPTEMBER 1ST, 1930.

U.S. Motor Group 3 6·00c. W.G.=7·20c. I.G.	Halifax vs. New York		St. John vs. Augusta, Me.		Montreal vs. Manchester, N.H.		Sherbrooke vs. Burlington, Vt.		Toronto vs. Buffalo		Border Cities vs. Detroit	
Max. 1930	14·30		15·80		15·40		16·30		14·80		16·80	
Min. 1930	11·30		12·80		12·40		13·30		11·80		13·80	
Posted T.W. Prices U.S. Cities		14·30		15·80		15·40		16·30		14·80		15·80
Converted to I.G.		17·16		18·96		18·48		19·56		17·76		18·96
Difference in Freight		3·00		2·56		0·80		1·12		0·76		0·60
Freight Surcharge—Nil												
Sales Tax 1%		0·07		0·07		0·07		0·07		0·07		0·07
Exchange Nil												
Total		20·23		21·59		19·35		20·75		18·59		19·63
Canadian T.W. Prices		20·00		20·00		20·50		21·50		19·50		18·50
Diff. in favour of U.S. Prices		0·23		1·59		1·15		0·75		0·91		1·13
Bradford Basis												
(7·00c. W.G.=8·40c. I.G.)		17·16		18·96		18·48		19·56		17·56		18·96
Difference in Freight		2·96		2·52		0·40		0·24		1·08		
Freight Surcharge—Nil												
Sales Tax 1%		0·08		0·08		0·08		0·08		0·08		0·08
Exchange Nil												
Total	20·20	White gasoline	21·56	White gasoline	18·96	White gasoline	19·88	White gasoline	18·92	White gasoline	19·04	White gasoline
Max. 1930	22·00	22·00		20·50				19·50		18·50		
Canadian T. W. Prices	20·00	20·00	20·00	20·00	20·50	20·50	21·50	21·50	19·50	19·50	18·50	18·50
Min. 1930	19·00	19·00		19·50				18·50		17·50		
Diff. in favour of U.S. Prices	0·20		1·56		1·54		1·62		0·58		0·54	

COMPARISON OF UNITED STATES AND CANADIAN CITIES RETAIL GASOLINE PRICES—(EX. TAX)

(Without Considering Duty)

8 February, 1932

U.S. Motor Group 3, 3·91 WG.= 4·69 IG	Halifax vs. New York		St. John vs. Augusta, Me.		Montreal vs. Manchester,NH		Toronto vs. Buffalo		Border Cities vs. Detroit	
Posted Retail Price U.S. City	12·30		13·80		13·40		12·00		11·50	
Converted to I.G	14·76		16·56		16·08		14·40		13·80	
Difference in Freight	3·00		2·56		0·80		0·76		0·60	
Freight Surcharge, 9%	0·83		0·81		0·65		0·51		0·46	
Sales Tax, 5%	0·27		0·27		0·27		0·27		0·27	
Exchange, 14·81%	0·69		0·69		0·69		0·69		0·69	
Total	19·55		20·89		18·49		16·63		15·82	
Canadian Retail Prices	24·00		24·00		21·00		21·00		21·00	
Difference in favor U.S. prices	4·45		3·11		2·51		4·37		5·18	
Bradford Basis: (4·09 WG.—4·91 I.G)	14·76		15·56		16·08		14·40		13·80	
Difference in Freight	2·72		1·68		0·04		1·20		0·24	
Freight Surcharge, 9%	0·48		0·48		0·27		0·22		0·23	
Sales Tax, 5%	0·28		0·28		0·28		0·28		0·28	
Exchange, 14·81%	0·73		0·73		0·73		0·73		0·73	
		White Gas		White Gas		White Gas		White Gas		White Gas
Total	18·97		19·73		17·40		16·83		15·28	
Canadian Retail Prices	24·00	None	24·00	None	21·00	18·50	21·00	18·50	21·00	18·50
Difference in Favor U.S. Prices	5·03		4·27		3·60	1·10	4·17	1·67	5·72	3·22

Toronto, April 6, 1932.

COMPARISON OF UNITED STATES AND CANADIAN CITIES TANK WAGON GASOLINE PRICES—(EX. TAX)

(Without Considering Duty)

8 Febuary, 1932.

U.S. Motor Group 3, 3·91 WG.= 4·69 IG.	Halifax vs. New York		St. John vs. Augusta, Me.		Montreal vs. Manchester, N.H.		Toronto vs. Buffalo		Border Cities vs. Detroit	
Posted T. W. Price U.S. City	10·30		12·80		12·40		11·00		11·50	
Converted to I.G	12·36		15·36		14·88		13·20		13·80	
Difference in Freight	3·00		2·56		0·80		0·76		0·60	
Freight Surcharge, 9%	0·83		0·81		0·65		0·51		0·46	
Sales Tax, 5%	0·27		0·27		0·27		0·27		0·27	
Exchange, 14·81%	0·69		0·69		0·69		0·69		0·69	
Total	17·15		19·69		17·29		15·43		15·82	
Canadian T. W. Prices	20·00		20·00		17·50		17·50		17·50	
Difference in favor U.S. Prices	2·85		0·31		0·21		2·07		1·68	
Bradford Basis: (4·09 W.G.=4·91 IG.	12·36		15·36		14·88		13·20		13·80	
Difference in Freight	2·72		1·68		0·04		1·20		0·24	
Freight Surcharge, 9%	0·48		0·48		0·27		0·22		0·23	
Sales Tax, 5%	0·28		0·28		0·28		0·28		0·28	
Exchange, 14·81%	0·73		0·73		0·73		0·73		0·73	
		White Gas		White Gas		White Gas		White Gas		White Gas
Total	16·57		18·53		16·20		15·63		15·28	
Canadian T.W. Prices	20·00	None	20·00	None	17·50	16·50	17·50	16·50	17·50	16·50
Difference in favor U.S. Points	3·43		1·47		1·30	0·30	1·87	0·87	2·22	1·22

Toronto, April 6, 1932.

COMPARISON OF UNITED STATES AND CANADIAN CITIES' RETAIL GASOLINE PRICES (EXCLUDING TAX)

(Without considering Duty or Dumping)

September 1st, 1930

	Fort William vs. Duluth	Winnipeg vs. Minneapolis	Brandon vs. Grand Forks	Regina vs. Minot	Calgary vs. Helena
Posted Retail Price U.S. City........	17·50	17·20	19·20	18·90	22·50
Max.—1930........................	18·50	18·20	20·20	19·90	23·50
Min.—1930........................	14·50	14·00	17·20	16·90	18·00
Converted to I.G....................	21·00	20·64	23·04	22·68	27·00
Difference in Freight................	4·00	4·00	3·20	4·08	3·12
Freight Surcharge....................	....	....	....	....	....
Sales Tax 1%.........................	0·07	0·07	0·07	0·07	0·07
Exchange.............................	....	....	....	....	....
Total:................................	25·07	24·71	26·31	26·83	30·19
Canadian Retail Prices...............	24 50	24·50	27·50	30·00	27·00
Max.—1930........................	26·00	25·00		30·00	27·00
Min.—1930........................	25·00	24·00		29·00	26·00
Diff. in favor Canadian Prices.......	0·57	0·21	*1·19*	*3·17*	3·19

U.S. Motor Group 3:
6·00c. W.G.=7·20 I.G.

COMPARISON OF UNITED STATES AND CANADIAN CITIES' TANK WAGON PRICES—GASOLINE

(Without considering Duty)

September 1st, 1930

	Fort William vs. Duluth	Winnipeg vs. Minneapolis	Brandon vs. Grand Forks	Regina vs. Minot	Calgary vs. Helena
Posted T.W. Price U.S. City........	16·50	16·20	18·20	17·90	19·50
Max.—1930........................	17·50	17·20	19·20	18·90	20·50
Min.—1930........................	14·50	14·00	16·20	15·90	15·00
Converted to I.G....................	19·80	19·44	21·84	21·48	23·40
Diff. in Freight......................	4·00	4·00	3·20	4·08	3·12
Freight Surcharge....................	....	....	....	....	....
Sales Tax 1%.........................	0·08	0·08	0·08	0·08	0·08
Exchange.............................	....	....	....	....	....
Total............................	23·88	23·52	25·12	25·64	26·60
Canadian T.W. Prices................	22·50	21·00	24·00	26·00	23·50
Max.—1930........................	22·50	21·50		26·00	23·50
Min.—1930........................	21·50	20·00		25·00	22·50
Diff. in favor of Can. Prices.........	1·38	2·52	1·12	*0·36*	3·10

U.S. Motor, Group 3:
6·00 w.g.=7·20 I.G.

COMPARISON OF U.S. AND CANADIAN CITIES RETAIL GASOLINE PRICES (EXCLUDING TAX)

(Without considering Duty or Dumping)

8 February 1932.

	Fort William vs. Duluth	Winnipeg vs. Minne-apolis	Brandon vs. Grand Forks	Regina vs. Minot	Calgary vs. Helena
Posted Retail Price U.S. City...........	13·6	13·3	15·3	15·0	18·0
Converted to I.G.......................	16·32	15·96	18·36	18·00	21·60
Difference in Freight....................	4·00	4·00	3·20	4·08	3·12
Freight Surcharge 9%..................	0·70	0·66	0·79	0·95	1·17
Sales and Excise Tax 5%..............	0·27	0·27	0·27	0·27	0·27
Exchange 14·81%......................	0·69	0·69	0·69	0·69	0·69
Total....................	21·98	21·58	23·31	23·99	26·85
Canadian Retail Prices.................	23·00	23·00	26·00	27·50	24·50
Diff. in favor U.S. Prices...............	1·02	1·42	2·69	3·51	*2·35*

U.S. Motor Gr. 3, 3·91 W.G. =4·691 I.G.
February 1932.

COMPARISON OF UNITED STATES AND CANADIAN CITIES TANK WAGON PRICES GASOLINE

(Without Considering Duty)

8 February 1932

	Fort William vs. Duluth	Winnipeg vs. Minneapolis	Brandon vs. Grand Forks	Regina vs. Minot	Calgary vs. Helena
Posted T. W. Price U. S. City	13·60	13·30	15·30	15·00	15·00
Converted to I. G.	16·32	15·96	18·36	18·00	18·00
Difference in Freight	4·00	4·00	3·20	4·08	3·12
Freight Surcharge 9%	0·70	0·66	0·79	0·95	1·17
Sales and Excise Tax 5%	0·27	0·27	0·27	0·27	0·27
Exchange 14·81%	0·69	0·69	0·69	0·69	0·69
Total	21·98	21·58	23·31	23·99	23·25
Canadian T. W. Prices	19·50	19·50	22·50	23·50	21·00
Differences in favor of Can. Prices	2·48	2·08	0·81	0·49	2·25

U.S. Motor Group 3, 3·91c. W.G. =4·69c. I.G.

VARIABLE FACTORS IN THE COST OF CRUDE OIL, COMPARED WITH VARIATIONS

Year 1929	Yields:	Gaso. 57·96% W.W. 9·21% 67·17% 23·50 I.G. Price of 36/36·9 Mid-Continent for Sarnia		Gaso. 58·55% W.W. 12·35% 70·90% 24·82 I.G. Price of 36/36·9 Seminole for Regina		
			per bbl.		per bbl.	
Jan. 25/29........	....		$1·20		$1·20	Gasoline......
		Add'l Buying	·05			Refined Oil...
		Sales Tax 3%	·0635	Sales Tax	·0968	
			1·3135		1·2968	
May 20/29.........	....		1·45		1·45	Gasoline......
		Add'l Buying	·05			Refined Oil...
		Sales Tax 2%	·0423	Sales Tax	·0645	
			1·5423		1·5145	
Oct. 1/29.........	....		1·45		1·45	Gasoline......
		Add'l Buying	·05			Refined Oil...
		Sales Tax 2%	·0423	Sales Tax	·0645	
			1·5423		1·5145	
Year 1930						
Jan. 1 to Feb. 14.....	45 days		1·45		1·45	Gasoline......
		Add'l Buying	·05			Refined Oil...
		Sales Tax 2%	·0423	Sales Tax	·0645	
			1·5423		1·5145	
Feb. 15 to April 9....	54 "		1·20		1·20	Gasoline......
		Add'l Buying	·05			Refined Oil...
		Sales Tax 2%	·0423	Sales Tax	·0645	
			1·2923		1·2645	
April 10 to Oct. 26..	200 "		1·29		1·29	Gasoline......
		Add'l Buying	·05			Refined Oil...
		Sales Tax 1%	·0212	Sales Tax	·0323	
			1·3612		1·3223	
Oct. 27 to Dec. 31..	66 "		·96		·95	Gasoline......
		Add'l Buying	·05			Refined Oil...
		Sales Tax 1%	·0212	Sales Tax	·0323	
			1·0212		·9823	
	365 days		1·3119		1·2760	

*Changed 3/20/30 to 21·00c. †Gasoline. ‡Refined Oil.

IN SELLING PRICES OF GASOLINE AND REFINED OIL—YEARS 1929, 1930, 1931

Tank Wagon Selling Prices (ex Provincial Gasoline Tax)

Calgary	Edmonton	Saskatoon	Regina	Brandon	Winnipeg	Hamilton	Windsor	Toronto	Average
Per Imperial Gallon									
23·50 23·50	27·50 27·50	28·00 28·00	26·00 26·00	24·00 24·00	21·50 21·50	19·50 21·00	18·50 20·00	19·50 21·00	....
24·50 24·50	28·50 28·50	29·00 29· 0	27·00 27·00	25·00 25·00	22·50 22·50	20·50 21·00	19·50 20·00	20·50 21·00	....
23·50 23·50	27·50 27·50	28·00 28·00	26·00 26·00	24·00 24·00	21·50 21·50	19·50 20·50	18·50 19·50	19·50 20·50	....
23·50 23·50	27·50 27·50	28·00 28·00	26·00 26·00	24·00 24·00	21·50 21·50	19·50 20·50	18·50 19·50	19·50 20·50	23·11 23·44
23·50 23·50	27·50 27·50	28·00 28·00	26·00 26·00	24·00 24·00	*21·50 21·50	19·50 20·50	18·50 19·50	19·50 20·50	23·11 23·44
23·50 23·50	27·50 27·50	28·00 28·00	26·00 26·00	24·00 24·00	21·00 21·50	19·50 20·50	18·50 19·50	19·50 20·50	23·06 23·44
22·50 22·50	26·50 26·50	27·00 27·00	25·00 25·00	23·00 23·00	20·00 20·50	18·50 19·50	17·50 18·50	18·50 19·50	22·06 22·44
									†22·89 ‡23·26

VARIABLE FACTORS IN THE COST OF CRUDE OIL, COMPARED WITH VARIATIONS

Year 1931	Yields:	Gaso. 57·96% W.W. 9·21% 67·17% 23·50 I.G. Price of 36/36·9 Mid-Continent for Sarnia		Gaso. 58·55% W.W. 12·35% 70·90% 24·82 I.G. Price of 36/36·9 Seminole for Regina		
			per bbl.		per bbl.	
Jan. 1 to Mar. 9......	68 days		·95		·95	Gasoline......
		Sales Tax 1%	·0212	Sales Tax	·0323	Refined Oil...
			·9712		·9823	
Mar 10 to June 2....	85 "		·59		·59	Gasoline......
		Sales Tax 1%	·0212	Sales Tax	·0323	Refined Oil...
			·6112		·6223	
June 3 to July 10....	38 "		·33		·33	Gasoline......
		Excise Tax	·0038	Excise Tax	·0038	Refined Oil...
		Sales Tax 4%	·0846	Sales Tax	·1291	
			·4184		·4629	
July 11 to July 23...	13 "		·18		·18	Gasoline......
		Excise Tax	·0023	Excise Tax	·0023	Refined Oil...
		Sales Tax 4%	·0846	Sales Tax	·1291	
			·2669		·3114	
July 24 to Aug. 21..	29 "		·38		·38	Gasoline......
		Excise Tax	·0043	Excise Tax	·0043	Refined Oil...
		Sales Tax 4%	·0846	Sales Tax	·1291	
			·4689		·5134	
Aug. 22 to Oct. 18..	58 "		·62		·62	Gasoline......
		Excise Tax	·0067	Excise Tax	·0067	Refined Oil...
		Sales Tax 4%	·0846	Sales Tax	·1291	
			·7113		·7558	
Oct. 19 to Nov. 1...	14 "		·62		·62	Gasoline......
		Excise Tax	·0076	Excise Tax	·0076	Refined Oil...
		Sales Tax 4%	·0846	Sales Tax	·1291	
		Exchange 13·19%	·1974	Surcharge 7%	·1088	
				Exchange 13·19%	·1148	
			·9096		·9803	
Nov. 2 to Dec. 31..	60 "		·77		·77	Gasoline......
		Excise Tax	·0093	Excise Tax	·0093	Refined Oil...
		Sales Tax 4%	·0846	Sales Tax	·1291	
		Exchange 13·42%	·2209	Surcharge 7%	·1088	
				Exchange 13·42%	·1369	
			1·0848		1·1541	
	365 days		·7398		·7754	

IN SELLING PRICES OF GASOLINE AND REFINED OIL—YEARS 1929, 1930, 1931—*Con.*

Tank Wagon Selling Prices (ex Provincial Gasoline Tax)

Calgary	Edmonton	Saskatoon	Regina	Brandon	Winnipeg	Hamilton	Windsor	Toronto	Average
Per Imperial Gallon									
22·50 22·50	26·50 26·50	27·00 27·00	25·00 25·00	23·00 23·00	20·00 20·50	18·50 19·50	17·50 18·50	18·50 19·50	22·06 22·44
19·50 19·50	23·00 23·00	24·00 24·00	22·00 22·00	21·00 21·00	18·00 18·50	16·00 15·00	16·00 15·00	16·00 17·00	19·50 19·44
19·50 14·50	23·00 18·00	24·00 19·00	22·00 17·00	21·00 16·00	18·00 13·50	16·00 15·00	16·00 15·00	16·00 17·00	19·50 16·11
19·00 14·50	22·50 18·00	23·50 19·00	21·50 17·00	20·50 16·00	17·50 13·50	15·50 15·00	15·50 15·00	15·50 17·00	19·00 16·11
19·50 14·50	23·00 18·00	24·00 19·00	22·00 17·00	21·00 16·00	18·00 13·50	16·00 15·00	16·00 15·00	16·00 17·00	19·50 16·11
21·00 14·50	24·50 18·00	25 50 19 00	23·50 17·00	22·50 16·00	19·50 13·50	17·50 16·50	17·50 16·50	17·50 18·50	21·00 16·61
21·00 14·50	24·50 18·00	25·50 19·00	23·50 17·00	22·50 16·00	19·50 13·50	17·50 16·50	17·50 16·50	17·50 18·50	21·00 16·61
21·00 18·00	24·50 21·50	25·50 22·50	23·50 20·50	22·50 19·50	19·50 16·50	17·50 16·50	17·50 16·50	17·50 18·50	21·00 18·89
									†20·50 ‡18·62

†Gasoline. ‡Refined oil.

SESSION 1932

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS

TUESDAY, MAY 17, 1932

No. 20

Reference.—Price of Gasoline

REPORT

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1932

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,

TUESDAY, May 17, 1932.

The meeting came to order at 10 o'clock, Mr. Matthews presiding.

Members present: Messrs. Baker, Beynon, Bothwell, Bowman, Chaplin, Donnelly, Ernst, Hackett, Hanson, Irvine, MacMillan, Matthews, McPhee, Peck, Perley, Pettit, Ralston, Smoke, Spencer, Stanley, Vallance, White, Willis.

The chairman presented and read a draft report of the findings and recommendations respecting the Reference *re* gasoline prices.

Mr. Ernst moved, seconded by Mr. Hanson, that the said draft report be adopted as the report of the committee to the House.

Mr. Bothwell thereupon presented and read another draft report and moved by way of amendment that the report as so presented by him, be adopted.

Mr. Ralston moved by way of amendment to the said motion of Mr. Bothwell that the committee simply report to the House the minutes of evidence taken on this enquiry.

The motion of Mr. Ralston being first put was negatived.

The motion by Mr. Bothwell being next put was negatived.

The motion by Mr. Ernst being then put was carried.

The meeting then adjourned at the call of the Chair.

A. A. FRASER,
Clerk of the Committee.

FOURTH REPORT

TUESDAY, May 17, 1932.

The Select Standing Committee on Banking and Commerce begs leave to submit its Fourth Report as follows:—

Your Committee has had under consideration an Order of Reference, dated February 11, 1932,—

> That, in the opinion of this House, the price of gasoline to the Canadian consumer has for some time past been too high, and that this matter should be referred to the Select Standing Committee on Banking and Commerce to investigate and report.

Your Committee has held 22 meetings, and has taken viva voce evidence on oath of 20 witnesses. Numerous exhibits were filed by witnesses.

The aforementioned witnesses represented the following companies:—

Imperial Oil, Limited,
McColl-Frontenac Oil Company, Limited,
British American Oil Company, Limited,
Shell Oil of Canada, Limited,
Eastcrest Oil Company, Limited,

and also included individual importers and distributors, in some cases importing direct from the United States, and in other cases purchasing gasoline from Canadian refiners.

An officer of the White Star Refinery Company, of Detroit, Michigan, also gave evidence concerning the condition of the petroleum industry in the United States.

An official of the Customs Branch of the National Revenue Department gave evidence respecting the appraisal of petroleum imports for duty purposes.

The Clarkson Commission Report of 1926 to the Ontario Government, being a report of an inquiry into the prices of gasoline and oils sold in the province, is incorporated in the evidence taken by your Committee.

A committee of the Legislature of Saskatchewan was concurrently conducting a similar inquiry to that of your Committee, but within the limitations of provincial jurisdiction, and presented a report of its findings and recommendations to the Legislature.

The said Saskatchewan Committee report is not within the Order of Reference from the House to your Committee and therefore has not been considered by your Committee but in view of the recommendations therein contained has been incorporated in the printed proceedings of evidence in order that the House may be informed of its contents.

Pursuant to authorization given by the House, your Committee engaged the firm of George A. Touche & Company, Chartered Accountants. This firm was instructed as follows, namely:—

1. That the accounts of the Imperial Oil, Limited, be taken for the purpose of establishing the fundamental facts required by the Committee.

2. That a basis of establishing the ascertainment of costs be mutually agreed upon between the auditors and the officers of Imperial Oil, Limited.

3. That for the purposes of the two preceding paragraphs, the investigation be specifically applied against,—
   - (*a*) The Sarnia and Halifax Refineries as regards the elements entering into production costs as a whole and as applicable to proportionate distribution of these total costs against gasoline and other commodities refined from crude.
   - (*b*) The relative wholesale price of gasoline and other commodities refined from crude in relation to costs of production at the Sarnia and Halifax Refineries.
   - (*c*) The elements embodied in the selling, distribution and administration expenses, added to the costs of production, in relation to selling prices for Imperial Oil Limited, as a whole and as specificially applied in the following marketing divisions,—
   - (*d*) That such marketing divisions may be designated by your sub-committee.

4. That synonymous with this investigation by the auditors into the aforementioned cost and selling factors of the Imperial Oil, Limited, they secure from British American Oil Co., Limited, and from McColl-Frontenac Oil Co., Limited, statements in such form as will render practicable a comparison of the relative costs and selling prices of the three corporations, thus offering means of disclosing any major variations without entailing the additional expense of investigating the smaller oil companies operating in Canada.

The auditors were also directed to make an examination and audit of the books of the McColl-Frontenac Oil Company with respect to certain operations of that company.

The auditors' report was duly presented to your Committee by Mr. O. A. Matthews, a member of the firm of George A. Touche and Company, who explained in detail the clauses of the report as the same was read at presentation. Mr. Matthews was subsequently recalled, sworn and examined in respect to matters connected with the audit and report. Statements of figures abstracted from the books of the audited companies, and extended in the report, were duly filed.

A summary of the conclusions as set out in the auditors' report is as follows:—

(*a*) That the Company's records relating to 1930 operating costs charged to gasoline showed no evidence of " cost loading " by reason of affiliations in the United States and South America, or because of unfavourable accounting practices, but rather, that the gasoline costs, if anything, were understated because of the Company's conservative policies in not loading into costs such matters as fire insurance premiums, depreciation rates, contingency reserve charges and inventory pricing.

(*b*) That the total costs for 1930 were free of charges for interest on capital invested, or such as might be related against funded debt or as a charge imposed by a parent company in the form of rental for use and operation of the Refineries and marketing stations and equipment. In other words, the financing of Imperial Oil, Limited, has been effected through the sale of capital stock and the investment of a proportion of surplus earnings in extensions of plant and equipment facilities, without any issue of bonds or debentures upon which interest might be charged.

(*c*) That the 1930 marketing costs charged to gasoline whilst as a whole legitimate from an accounting point of view, were high in relation to total costs. The high cost of marketing is attributed to territorial and climatic conditions, and extreme competition obtaining in the distribution and marketing of gasoline in Canada. In view of the fact that the territorial and climatic conditions in Canada are not subject to human manipulation and change, a partial solution of the problem would seem to lie in a concerted action on the part of all distributing companies to eliminate as far as possible the present costly system of marketing.

(*d*) That variations in gasoline prices in 1929, 1930 and 1931 to consumers were not based directly upon ascertained refinery costs, but largely upon the variations in the market cost of crude oil with fluctuating additional charges for excise tax, sales tax, freight surcharge and exchange. It has has not been demonstrated that any grounds exist for any allegations that the Company has taken unfair advantage of either the specific or dumping duties in its gasoline prices to consumers during the period under investigation.

(*e*) That the reason for the unfavourable comparison at some points between United States competitive prices and those of the Imperial Oil, Limited, is due to the demoralized conditions of the gasoline industry in the United States, caused by the over-production of gasoline and various tax evasion "rackets," which, in turn, result in the price of United States gasoline falling far below the relative movements in crude oil prices and other costs of production and distribution.

(*f*) That the zoning basis of establishing gasoline prices results in the spreading of transportation differentials to the comparative disadvantage of gasoline consumers at centres of trade in proximity to some refineries, whereas the zoning price basis frequently operated to the advantage of gasoline consumers in the territories outlying from the refineries. It was also found that tank wagon gasoline prices are given to farmers and coastal fishermen both East and West.

(*g*) That in such outlying districts as have no dealer competition or where any dealer association arrangements exist, the spread between Imperial Oil, Limited, tank wagon prices and the prices to the consumer is entirely in the hands of the independent dealers.

(*h*) That apart altogether from the basis used in the establishing of gasoline prices, the spread between such selling prices and the combined costs of refining and marketing showed an average net profit of not exceeding 1·01 cents per Imperial gallon of all gasoline sold by Imperial Oil, Limited, in the year 1930.

(*i*) That in view of the fact that the investigation of Imperial Oil, Limited, disclosed no improper accounting practices in the matter of costs or unstated profits, and because Imperial Oil, Limited, occupy the leading position in the gasoline industry in Canada, the auditors gave it as their opinion that the expense which would be involved in extending their investigation into the records of the British American Oil Company, Limited, the McColl-Frontenac Oil Company, Limited, and other oil companies in Canada, would not be justified in view of their findings on the average net profit per gallon of gasoline sold by Imperial Oil, Limited, in 1930.

From a consideration of the evidence and the auditors' report, it is the opinion of your Committee that the price of gasoline to the Canadian consumer is not unreasonably high, and that the public interest would not be further served by a continuation of this inquiry.

Tabled herewith is a copy of the printed Proceedings and Evidence.

All of which is respectfully submitted.

R. C. MATTHEWS,
Chairman.


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