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*Oct. 15, 16, 17, 18, 21.

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*May 13.

# IN THE MATTER OF A REFERENCE AS TO THE VALIDITY OF SECTION 6 OF THE FARM SECURITY ACT, 1944, OF THE PROVINCE OF SASKATCHEWAN.

*Constitutional law—Statute—Section 6 of the Farm Security Act of Saskatchewan—"Crop failure"—Period of suspension—No payment of principal—Principal, falling due during period, automatically postponed—Principal outstanding on 15th of September automatically reduced—Interest continuing to be payable as if principal had not been so reduced—Whether section 6 ultra vires of the legislature—"Interest"—"Bankruptcy and Insolvency"—"Agriculture"—Civil rights—Whether Section 6 affects Dominion Crown or its agencies—Provincial Mediation Board—Not exercising powers of a court, but fulfilling administrative functions—B.N.A. Act, sections 91 (19), 92 (13), 95, 96, 99, 100—Interest Act, R.S.C. 1927, c. 102—Farm Security Act, Sask. S., 1944, c. 30, as amended by Sask. S., 1945, c. 28, s. 2.*

Section 6 of the *Farm Security Act 1944* (Saskatchewan) enacts *inter alia* that, when there is in the Province a "crop failure", as defined in the Act, then "the mortgagor or the purchaser" of a farm "shall not be required to make any payment of principal to the mortgagee or vendor during the period of suspension" and any "principal outstanding" on the fifteenth day of September in the period of suspension shall on that date become automatically reduced by four per cent * * * provided that notwithstanding such reduction interest shall continue to be chargeable, payable and recoverable as if the principal had not been so reduced."

*PRESENT:—Rinfret C.J. and Kerwin, Hudson, Taschereau, Rand and Kellock J.J.

REPORTER'S NOTE:—No reasons for judgment from Mr. Justice Hudson, as he died before delivery of judgment.

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*Held,* Taschereau J. dissenting, that section 6 is wholly *ultra vires* the Legislative Assembly of the province of Saskatchewan. This enactment is legislation in relation to "interest" and such legislation is within the exclusive legislative jurisdiction of the Dominion Parliament under head 19 of section 91 of the *British North America Act.*

*Per* Taschereau J. (dissenting): Provisions of section 6 were competently enacted by the Legislature. Legislation to relieve farmers of financial difficulties and to lighten the burdens resulting from the uncertainties of farming operations is legislation in relation to "agriculture" (s. 95 B.N.A. Act.)—Also, the clauses contained in that section are dealing with the civil rights of the vendor or of the mortgagor (s. 92 (13) B.N.A. Act)—Moreover, in enacting the Act, the legislature was entering the field of contracts, and the legislature has power to insert in a private contract a statutory clause which affects the civil rights of one or both parties who contract, even if the rights of the parties are modified or totally destroyed.—The *Farm Security Act* is therefore in pith and substance a law relating to agriculture and civil rights and its constitutionality cannot be successfully challenged merely because it may incidentally affect "interest".

*Per* Taschereau J.—But the Act, and specially section 8, must be construed as not affecting the Crown in right of the Dominion or any of its agencies holding mortgages in the Province.

*Per* Taschereau J.—The Provincial Legislature, in creating the Provincial Mediation Board, did not confer to it the powers of a court, thereby infringing upon the prerogatives of the Dominion. The Board does not fulfil "judicial" or "quasi-judicial" but solely "administrative" functions.

REFERENCE by His Excellency the Governor General in Council to the Supreme Court of Canada in the exercise of the powers conferred by section 55 of the *Supreme Court Act* (R.S.C. 1927, c. 3f) of the questions contained in the Order in Council now recited:

"Whereas the Legislative Assembly of Saskatchewan at its second session in the calendar year 1944 enacted a statute entitled *An Act for the Protection of certain Mortgagors, Purchasers and Lessees of Farm Land* being Chapter 30 of the aforesaid second session and bearing the short title *The Farm Security Act, 1944;*

"And whereas section 6 of the said statute provides, amongst other things, for the automatic reduction, in the year of a crop failure, as defined, in the principal indebtedness of a mortgagor or purchaser by 4% or by the same percentage as that at which interest accrues on the principal debt whichever is the greater;

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"And whereas section 6 aforesaid was amended by the Legislative Assembly at its session in the calendar year 1945 by Chapter 28 of the statutes of that session;

"And whereas questions have been raised as to whether the Legislative Assembly has legislative jurisdiction to enact the provisions of section 6 aforesaid as amended;

"And whereas questions have also been raised as to the operative effect of section 6 aforesaid in the case of mortgages

(*a*) securing loans made by His Majesty in right of Canada either alone or jointly with any other person under the *National Housing Act, 1944,* or otherwise;

(*b*) securing loans made by the Canadian Farm Loan Board;

(*c*) assigned to the Central Mortgage and Housing Corporation.

"And whereas the Minister of Justice is of opinion that the same are important questions of law touching the constitutionality and interpretation of this provincial legislation;

"Therefore, His Excellency the Governor General in Council, on the recommendation of the Minister of Justice, pursuant to the provisions of section 55 of the *Supreme Court Act,* is pleased to refer and doth hereby refer the following questions to the Supreme Court of Canada for hearing and consideration:

1. "Is section 6 of the *Farm Security Act, 1944,* being Chapter 30 of the Statutes of Saskatchewan 1944 (second session) as amended by section 2 of Chapter 28 of the Statutes of Saskatchewan, 1945, or any of the provisions thereof *ultra vires* of the Legislative Assembly of Saskatchewan either in whole or in part and if so in what particular or particulars and to what extent?"

2. "If the said section 6 is not *ultra vires,* is it operative according to its terms in the case of mortgages

(*a*) securing loans made by His Majesty in right of Canada either alone or jointly with any other person under the *National Housing Act, 1944,* or otherwise;

(*b*) securing loans made by the Canadian Farm Loan Board; or

(*c*) assigned to the Central Mortgage and Housing Corporation."

(Sgd.) A. D. P. Heeney,
Clerk of the Privy Council.

*J. L. Ralston K.C.* and *D. W. Mundell* for the Attorney-General for Canada.

*Ives Prévost K.C.* for the Attorney-General for Quebec.

*G. W. Mason K.C.*, *M. C. Shumiatcher* and *R. S. Meldrum* for the Attorney-General for Saskatchewan.

*H. J. Wilson K.C.* for the Attorney-General for Alberta.

*C. F. Carson K.C.* and *L. S. Goodenough* for The Dominion Mortgage and Investments Association.

The judgment of The Chief Justice and Kerwin J. was delivered by

KERWIN J.:—The validity of section 6 of the *Farm Security Act* was attacked on several grounds and, on the other hand, its constitutionality was affirmed under various provisions of the *British North America Act*. One of the grounds of attack was that section 6 was in relation to interest, which is head 19 of section 91 of the B.N.A. Act, and that is the only point that I find it necessary to consider.

In the factum of counsel for the Attorney-General of Saskatchewan it is stated:—

> The pith and substance of the legislation is agricultural security and the reduction of unavoidable risks to individual farmers by a spreading of such risks as exist between both farmers and their creditors, and eventually perhaps, among the provincial population as a whole.

It may be taken that this is the object of the legislation but when one considers what the legislature is doing by subsection 2 of section 6 of the Act, which is the important provision, it seems plain that the pith and substance of the Act is interest. If, according to the other provisions, a mortgagor or a purchaser under an agreement of sale,

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of farm land in Saskatchewan, is able to realize, due to causes beyond his control, from the crops on the land a sum less than a sum equal to $6.00 per acre sown to grain in any one year on such land, then there is a crop failure within the meaning of the Act. If this event happens, the mortgage or agreement of sale is deemed to contain the condition that (1) the mortgagor or purchaser shall not be required to make any payment of principal during the period of suspension,—which by definition means the period commencing August 1st in the year of a crop failure and ending on July 31st in the next succeeding year; (2) any principal falling due during the period of suspension and any principal which thereafter falls due shall become automatically postponed for one year; (3) the principal outstanding on the fifteenth day of September in the period of suspension shall on that date become automatically reduced by four per centum thereof or by the same percentage thereof as that at which interest will accrue immediately after the said date on the principal then outstanding, whichever percentage is the greater; provided that, notwithstanding such reduction, interest shall continue to be chargeable, payable and recoverable as if the principal had not been so reduced.

As to (3), it was stated and not denied that all mortgages, or agreements of sale of land in Saskatchewan, practically without exception, bear interest at a rate greater than four per centum per annum. The effect, therefore, of (3) is that while the mortgage or agreement will be reduced by the amount of interest for the period of suspension, according to the proviso, the same amount of interest shall continue to be paid as if the principal had not been so reduced. It is not important to resolve the dispute between counsel as to exactly how this third limb of the condition would operate in various cases but two things are clear. One is that the interest for the period of suspension is cancelled, and the other is that the same amount of interest is payable, thereby effecting in substance a payment of interest in the future at a rate higher than that agreed upon. Legislation reducing the rate of interest payable under a contract is legislation in relation

to interest: *Board of Trustees of Lethbridge Northern Irrigation District* v. *Independent Order of Foresters* (1) and the legislation here in question is definitely in relation to interest.

Once that conclusion is reached, the decision in *Ladore* v. *Bennett* (2), so greatly relied on, can have no application. As was pointed out in the *Lethbridge* case (1), the legislation in question in *Ladore* v. *Bennett* (2) and also that in *Day* v. *Victoria* (3), was legislation in relation to a matter within section 92 of the B.N.A. Act, and any provisions with regard to interest were incidental. In the present case the provisions as to interest are the very warp and woof of the enactment. It is impossible to sever these from the remainder of the Act, and in my opinion, therefore, section 6 is wholly *ultra vires* the Legislative Assembly of Saskatchewan. This renders it unnecessary to answer the second question.

TASCHEREAU J.—By an Order in Council of the 14th of May, 1946, being P.C. 1921, His Excellency the Governor General in Council referred to this Court for hearing and consideration, pursuant to the authority of section 55 of the *Supreme Court Act*, the following questions:—

1. In section 6 of *The Farm Security Act*, 1944, being chapter 30 of the statutes of Saskatchewan 1944 (second session) as amended by section 2 of chapter 28 of the statutes of Saskatchewan, 1945, or any of the provisions thereof *ultra vires* of the Legislative Assembly of Saskatchewan either in whole or in part and if so in what particular or particulars and to what extent?

2. If the said section 6 is not *ultra vires*, is it operative according to its terms in the case of mortgages

(*a*) securing loans made by His Majesty in right of Canada either alone or jointly with any other person under *The National Housing Act*, 1944, or otherwise;

(*b*) securing loans made by the Canadian Farm Loan Board; or

(*c*) assigned to the Central Mortgage and Housing Corporation.

The Attorney General of Canada and the Dominion Mortgage and Investment Association submitted that this section, which is not severable from the rest of the Act, is *ultra vires* of the powers of the province of Saskatchewan, while the Attorney General of Alberta supported the view of the Attorney General of Saskatchewan, that the legisla-

(1) [1940] A.C. 513.
(2) [1939] A.C. 468.
(3) [1938] 3 W.W.R. 161

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tion is within the powers of the province. The Attorney General of Quebec asked the Court to make certain reservations if the Act were declared *ultra vires*.

This Act is challenged on the ground that it deals with interest, bankruptcy and insolvency which are within the exclusive legislative jurisdiction of the Dominion Parliament. It is also said that if the subject matter of section 6 were to be regarded as merely ancillary to legislation relating to Bankruptcy and Insolvency, the Provincial Legislature of Saskatchewan is nevertheless precluded from entering that field, because it is claimed that it is now occupied by the Dominion. It is further submitted that it is inconsistent with sections 96, 99 and 100 of the *British North America Act*, in that it confers the powers of a Court on a body not competently constituted to exercise such powers. As to question two, the contention of the Attorney General of Canada is that the Central Mortgage and Housing Corporation and the Canadian Farm Loan Board are agents of the Crown, and that the mortgages they hold, being vested in the Crown, cannot be affected by Provincial Legislation.

The section of the Act which is challenged enacts that when there is in the Province a "crop failure", as defined in the Act, then, the mortgagor or the purchaser of a farm shall not be required to make any payment of principal to the mortgagee or to the vendor, during the period of "suspension", and any principal outstanding on the 15th day of September, in the period of suspension, shall become automatically reduced by four per cent. but, *interest* shall continue to be chargeable, payable and recoverable, as if the principal had not been reduced. If the mortgagee and mortgagor or the vendor and purchaser do not agree as to whether or not there has been a "crop failure" in any year, either party may apply to the Provincial Mediation Board appointed by the provincial authorities which, after hearing both parties, determines whether or not there has been a "crop failure" in the year in question.

It is claimed by the Attorney General of Alberta that the Act is in pith and substance legislation in relation to

farm security in the province, as it affects farmers and the farming industry, a subject well within the powers of the Provincial Legislation.

Under the B.N.A. Act, "agriculture in the Province" is a matter on which Provincial Legislation may competently be enacted. The unambiguous terms of section 95 can leave no doubt. It reads as follows:

95. In each Province the Legislature may make laws in relation to Agriculture in the Province, and to Immigration into the Province; and it is hereby declared that the Parliament of Canada may from Time to Time make laws in relation to Agriculture in all or any of the Provinces, and to Immigration into all or any of the Provinces; and any Law of the Legislature of a Province relative to Agriculture or to Immigration shall have effect in and for the Province as long and as far only as it is not repugnant to any Act of the Parliament of Canada.

Agriculture is undoubtedly the main industry in Saskatchewan, and it is by far the principal source of revenue of its inhabitants. We have been told that from 1920 to 1943, the total estimated gross cash income to farmers of the province was $4,303,000,000 of which $3,006,000,000 was from wheat. This income is, of course, subject to wide fluctuations; and precipitation, pests, rust and weeds, and various other hazards of production, are variable factors which, to a very large extent, affect the revenues of the farmers. It has been submitted that the spreading of the risk more equitably between the mortgagor and mortgagee and between the vendor and the purchaser, in an effort to mitigate against these hardships, is a matter pertinent to the agricultural industry in Saskatchewan.

The word "agriculture" must be interpreted in its widest meaning, and ought not to be confined to such a narrow definition, that would allow the province to enact legislation, pertaining only, as Morrison J. said in *Brooks* v. *Moore* (1) "to those things that grow and derive their substance from the soil." I am strongly of opinion that legislation to relieve the farmers of financial difficulties, to lighten the burdens resulting from the uncertainties of farming operations, is legislation in relation to agriculture.

As it has often been said, it is the true nature and character of the legislation that has to be found in order

(1) (1906) 4 W.L.R. 110.

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to ascertain the class of subject to which it belongs. (*Russell* v. *The Queen*, (1); *Gallagher* v. *Lyon* (2)).

The same principle has also been reaffirmed by the Judicial Committee in *Shannon et al* v. *Lower Mainland Dairy Products Board, and the Attorney General for British Columbia* (3). (*Vide* also *Home Oil Distributors Limited and Attorney-General of British Columbia*, (4)).

I have reached the conclusion that this legislation, being a legislation enacted for the purpose of dealing with agricultural matters within the province of Saskatchewan, is legislation *in pith and substance* in relation to agriculture and that it was, therefore, competently enacted by the province of Saskatchewan.

Section 95 of the B.N.A. Act gives also power to the Parliament of Canada to make laws in relation to agriculture in all or any of the provinces, and it is only when the laws enacted by the province are repugnant to any Act of the Parliament of Canada, that they cease to have effect in and for the province. Here, the subject matter covered by the *Farm Security Act* is the only of its kind, and no federal legislation having been enacted, it results that the field is clear and that this law cannot be repugnant to any federal legislation. In order to avoid any possibility of encroachment, it is stated in the law that section 6, which is the impeached one, shall not apply to a mortgagor or purchaser:

(*a*) whose property is deemed to be under the authority of the court pursuant to subsection (1) of section 10 of *The Farmers' Creditors Arrangement Act, 1943*, (Canada);

(*b*) whose affairs have been arranged by and are subject to a composition, extension of time or scheme of arrangement approved by the court or confirmed by the Board of Review under *The Farmers' Creditors Arrangement Act, 1934*, (Canada) or approved or confirmed by the court under *The Farmers' Creditors Arrangement Act, 1943*, (Canada); or

(*c*) whose affairs have been so arranged and where the composition, extension of time or scheme of arrangement has been annulled pursuant to either of the said Acts.

It has been further submitted by the Attorney General of Saskatchewan that this legislation also relates to property and civil rights in the province, a subject within the competency of the Provincial Legislature. In its efforts to equalize the risks between the vendor and purchaser

(1) (1882) 7 A.C. 829.
(2) [1937] A.C. 869.
(3) [1938] A.C. 708, at 720 and 721.
(4) [1940] S.C.R. 444.

and the mortgagor and mortgagee in a period of crop failure, the Legislature has enacted that during such a period the purchaser or the mortgagor shall not be required to make any payment of principal to the mortgagee or to the vendor, and that during the period of suspension, the capital shall become automatically reduced by four per cent. These clauses, which are deemed to be incorporated in every agreement of sale notwithstanding anything to the contrary, unquestionably deal with the civil rights of the vendor or of the mortgagor.

The courts are not concerned with the wisdom of the legislation, but must apply the laws as they stand. In granting a period of suspension or a reduction of the principal of a civil debt, the Legislature of Saskatchewan legislates obviously on a civil subject matter which, under section 92 (13), is of a local and provincial nature. A civil debt is founded on some contract alleged to have taken place between the parties, or on some matter of fact from which the law would imply a contract between them. If the debt is not paid, an action lies to enforce the claim, and as it is within the powers of the Provincial Legislature to authorize the necessary action for the enforcement of the claim, it is also well within the same powers to suspend, reduce or extinguish it entirely. On such matters, the sovereignty of the Provincial Legislature cannot be challenged.

In enacting the *Farm Security Act,* the Legislature of Saskatchewan was dealing with agreements of sale and mortgages, and therefore was entering the field of contracts. In *Citizens Insurance Co.* v. *Parson* (1), Sir Montague Smith said at page 110:

> The words "civil rights and property" are sufficiently large to embrace, in their fair and ordinary meaning, rights arising from contract, and such rights are not included in express terms in any of the enumerated classes of subjects in section 91.

And at page 111, referring to the Quebec Act (14 Geo. III, chap. 83), he stated:

> In this statute, the words "property and civil rights" are plainly used in their largest sense; and there is no reason for holding that in the statute under discussion (The B.N.A. Act) they are used in a different and narrower one.

(1) (1881) 7 A.C. 96.

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The well known "insurance cases" may be referred to in connection with the interpretation which has been given to s.s. 13 of section 92. In *Attorney General for Canada* v. *Attorney General for Alberta* (1); *Attorney General for Ontario* v. *Reciprocal Insurers* (2); and *In Re Insurance Act of Canada* (3), the Judicial Committee dealt with the power of the Dominion Parliament to license and control the activities of the Insurance Companies. It was held that this type of legislation could not be supported under the Dominion law to legislate over "Trade and Commerce", or "Criminal Law", or under any other of the enumerated or residuary provisions of section 91, because the legislation remained directly related to civil contracts and trenched upon the provincial power to legislate over "property and civil rights in the Province".

I know of no authority which prevents the Legislature to insert in a private contract a statutory clause which affects the civil rights of one or both parties to the contract, even if the rights of the parties are modified or totally destroyed.

It has been submitted that section 6 invades the federal field and is, therefore, *ultra vires* of the powers of the province, because it contains a clause which is to the effect that during the suspension period or after the reduction in capital, as the case may be, the interest will continue to run as if no suspension or reduction in capital had been made.

The clause is as follows:

> Notwithstanding such reduction, interest shall continue to be chargeable, payable and recoverable as if the principal had not been so reduced.

There is no doubt that under section 91 of the *British North America Act,* subsection 19, "interest" is a matter on which the Parliament of Canada only may properly legislate, and it is obviously in order to prevent any attack on that ground that the clause was inserted by the Legislature of Saskatchewan. But, with the clause as it stands, it is said that when the principal oustanding is automatically reduced, interest continues to be chargeable,

(1) [1916] 1 A.C. 488.
(2) [1924] A.C. 328.
(3) [1932] A.C. 41.

payable and recoverable on a principal which is not existent. It results that there is an increased rate on the amount of principal actually outstanding.

The answer to this objection is, that the Act is in pith and substance a law relating to agriculture and civil rights, and, if interest is affected, it is only incidentally. The Act is not directed to interest. Its main purpose and object is to assist farmers in times of distress by redrafting a civil contract, as a result of which their losses, due to a fortuitous event or an act of God, are shared partly with their mortgagees or vendors. If, as a consequence of this legal intervention of the Provincial Legislature in the contractual relations between two individuals, interest is incidentally affected, it remains nevertheless that the law is valid and not impeachable.

I think that this point has been definitely settled since the judgment of the Privy Council in *Ladore* v. *Bennett* (1). In that case, several municipalities of Ontario had failed to meet their debentures or interests, and were amalgamated together. The Ontario Municipal Board accepted a scheme which had been formulated for funding and refunding the debts of the amalgamated municipalities, under which former creditors of the old independent municipalities, received debentures of the new city of equal nominal amount to those formerly held, but with the interest scaled down in various classes of debentures. It was argued that the relevant statutes adopted by the Ontario Legislature were *ultra vires* because they invaded the field of "interest". It was held by the Judicial Committee that the *pith and substance* of the Ontario Acts were in relation to "municipal institutions in the Province" and that interest was affected only incidentally. The Acts were held valid.

In 1938, the Court of Appeal of British Columbia in *Day* v. *City of Victoria* (2), had reached a similar conclusion, and in the *Lethbridge* case (3), the *Day* v. *Victoria* case (2) was approved by the Privy Council.

In the *Lethbridge* case (3), it was held that the legislations adopted by the Provincial Government of Alberta,

(1) [1939] A.C. 468.
(2) [1938] 3 W.W.R. 161.
(3) [1940] A.C. 513.

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which purported to reduce by one-half the interest on certain securities guaranteed by the province, and the interest payable on securities issued by the province, were *ultra vires* of the powers of the province of Alberta; it was held that these legislations were in pith and substance in relation to interest. Their sole object was to reduce the rate. But, the principles enunciated in *Ladore* v. *Bennett* (1), were reaffirmed, and it is for the sole reason given above that the acts were declared to be without the powers of the Provincial Legislature.

Having come to the conclusion that the Act which is now under attack is in pith and substance and that its true character is in relation to agriculture, it naturally follows that its constitutionality cannot be successfully challenged merely because it may incidentally affect interest.

It has also been submitted that the Act is invalid because it invades the fields of "bankruptcy or insolvency" within the meaning of head 21 of section 91 of the B.N.A. Act. The short answer to this contention is that the Act does not even deal incidentally with insolvency or bankruptcy, if the meaning of these terms are properly understood. Its purpose is not, when there is a crop failure, to make a final distribution of the assets of the mortgagor or of the purchaser in the general interest of the creditors, or to make a compromise of any kind which would have the characteristics of bankruptcy or insolvency. Independently of the solvency or insolvency of the mortgagor or purchaser the Act merely purports to deal with a civil debt. It is the participation between two private individuals in a loss, which otherwise would be the sole burden of the mortgagor or purchaser, which lies at the very root of this legislation. (*Union St-Joseph* v. *Belisle*, (2); *Attorney General of Ontario* v. *Attorney General of Canada*, (3)).

With further contention that the impugned legislation confers the powers of a court not competently constituted to exercise such powers, cannot I think, be accepted. The only function of the Board is merely to decide whether

(1) [1939] A.C. 468.
(2) (1874) L.R. 6 P.C. 31.
(3) [1894] A.C. 189.

there has been or not a crop failure, and if it is found that such a condition exists, the rights and obligations of the parties then arise from the statute itself. No declaration of the rights of the parties is made by the Board, and I am therefore quite satisfied that it does not fulfil "judicial" or "quasi judicial" functions. (*Shell Co. of Australia* v. *Federal Commissioners of Taxation,* (1); *Haddart Parker & Co.* v. *Moorehead,* (2)).

I may also refer to the case of *The Attorney General of Quebec* v. *Slamac & Grimstead et al,* (3) in which the constitutionality of the *Workmen's Compensation Act* of Quebec was attacked. It was alleged that this Act was unconstitutional, *ultra vires* and void because it made the Commission a real tribunal conferring upon it a civil jurisdiction belonging to Superior and County Court judges of each province. The court of appeal of the province of Quebec held that the functions of the Commissioners were administrative and not judicial.

The Board must of course act "judicially" in the sense that it must act fairly and impartially, but this does not mean that its members are anything more than mere administrative officers in the performance of their duties. (*Saint-John* v. *Fraser,* (4)).

The second question submitted and which has now to be determined is the following:

(2) If the said section 6 is not *ultra vires,* is it operative according to its terms in the case of mortgages

(*a*) securing loans made by His Majesty in right of Canada either alone or jointly with any other person under *The National Housing Act,* 1944, or otherwise;

(*b*) securing loans made by *The Canadian Farm Loan Board,* or

(*c*) assigned to The Central Mortgage and Housing Corporation.

The *Farm Security Act* contains clause 8 which reads as follows:

8. This Act shall affect the rights of the Crown as mortgagee, vendor or lessor.

Having come to the conclusion that the Act itself is *intra vires* of the powers of the Legislature of Saskatchewan, it is now necessary to examine if the Act is operative as to

(1) [1931] A.C. at 295.
(2) (1909) 8 Commonwealth L.R.?
(3) [1933] 2 D.L.R. 289.
(4) [1935] S.C.R. at 452.

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what has been called the Federal Crown holding mortgages in the province. A negative answer to this question would of course not make the Act *ultra vires,* but it would merely mean that section 8 should be construed as not affecting the Dominion Crown or its agencies.

"It is true that there is only one Crown", but as Viscount Dunedin added in *In re Silver Bros. Ltd.,* (1)

> as regards Crown revenues and Crown property, by legislation assented to by the Crown there is a distinction made between the revenues and property in the Province, and the revenues and property in the Dominion. There are two statutory purses.

In *Gauthier* v. *The King,* (2) Anglin J. as he then was, dealt with the matter as to whether or not the Crown in right of the Dominion was bound by a reference to the Crown in a provincial statute, and the then Chief Justice Sir Charles Fitzpatrick said at page 182 of the same case:

> I agree with Anglin J. that the provincial Act, read as a whole, cannot be interpreted as applicable, for the reasons he gives, to bind the Dominion Crown.
>
> And, in any event, the provinces have, in my opinion, neither executive, legislative nor judicial power to bind the Dominion Government. Provincial statutes which were in existence at the time when the Dominion accepted a liability form part of the law of the province by reference to which the Dominion has consented that such liability shall be ascertained and regulated, but any statutory modification of such law can only be enacted by Parliament in order to bind the Dominion Government. That this may occasionally be productive of inconvenient results is one of the inevitable consequences of a divided authority inherent in every federal system such as provided by the constitution of this country.

On the same matter see also *Burrard Power Company* v. *The King* (3).

The principles enunciated in these cases are, I believe, applicable here, and I have to come to the conclusion that the Act must be read as not affecting the Crown in right of the Dominion, or any of its agencies holding mortgages in the province.

For the above reasons, I would answer both interrogatories in the negative.

There should be no cost to either party.

(1) [1932] A.C. 514, at 524.
(2) (1917) 56 Can. S.C.R. 176, at 194.
(3) [1911] A.C. 91.

RAND J. The questions submitted to us by His Excellency in Council are these:

1. Is section 6 of the *Farm Security Act*, 1944, being Chapter 30 of the Statutes of Saskatchewan 1944 (second session) as amended by section 2 of Chapter 28 of the Statutes of Saskatchewan, 1945, or any of the provisions thereof, *ultra vires* of the Legislative Assembly of Saskatchewan either in whole or in part and if so in what particular or particulars and to what extent?

2. If the said section 6 is not *ultra vires*, is it operative according to its terms in the case of mortgages

(*a*) securing loans made by His Majesty in right of Canada either alone or jointly with any other person under the *National Housing Act*, 1944, or othewise,

(*b*) securing loans made by the Canadian Farm Loan Board, or

(*c*) assigned to the Central Mortgage and Housing Corporation?

The clauses of section 6, as amended, pertinent to the conclusion at which I have arrived, are as follows:

6. (1) In this section the expression:

1. "agreement of sale" or "mortgage" means an agreement for sale or mortgage of farm land heretofore or hereafter made or given, and includes an agreement heretofore or hereafter made renewing or extending such agreement of sale or mortgage;

2. "crop failure" means failure of grain crops grown in any year on mortgaged land or on land sold under agreement of sale, due to causes beyond the control of the mortgagor or purchaser, to the extent that the sum realizable from the said crops is less than a sum equal to six dollars per acre sown to grain in such year on such land;

* * *

5. "payment" includes payment by delivery of a share of crops;

* * *

(2) Notwithstanding anything to the contrary, every mortgage and every agreement of sale shall be deemed to contain a condition that, in case of crop failure in any year and by reason only of such crop failure:

1. the mortgagor or purchaser shall not be required to make any payment of principal to the mortgagee or vendor during the period of suspension;

2. payment of any principal which falls due during the period of suspension and of any principal which thereafter falls due under the mortgage or agreement of sale shall become automatically postponed for one year;

3. the principal outstanding on the fifteenth day of September in the period of suspension shall on that date become automatically reduced by four per cent. thereof or by the same percentage thereof as that at which interest will accrue immediately after the said date on the principal then outstanding, whichever percentage is the greater; provided that, notwithstanding such reduction, interest shall continue to be chargeable, payable and recoverable as if the principal had not been

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so reduced. (Sub-section (2) shall be deemed to have been in force on and from the thirtieth day of December, 1944. See amending act Chap. 28, Acts of 1945, Section 2 (3)).

* * *

(7) This section shall not apply to a mortgagor or purchaser:

(*a*) whose property is deemed to be under the authority of the court pursuant to sub-section (1) of section 10 of *The Farmers' Creditors Arrangement Act, 1943,* (Canada);

(*b*) whose affairs have been arranged by and are subject to a composition, extension of time or scheme of arrangement approved by the court or confirmed by the Board of Review under *The Farmers' Creditors Arrangement Act, 1934,* (Canada) or approved or confirmed by the court under *The Farmers' Creditors Arrangement Act, 1943,* (Canada); or

(*c*) whose affairs have been so arranged and where the composition, extension of time or scheme or arrangement has been annulled pursuant to either of the said Acts.

(8) The Provincial Mediation Board may by order exclude from the operation of this section any mortgage or agreement of sale or agreements of sale and in case of such exclusion this section shall not apply to the excluded mortgage or agreement of sale or class of mortgages or agreements of sale.

The definition of "crop failure" is embarrassed by the use of the words "to the extent that the sum realizable * * * is less than a sum equal to six dollars per acre"; they have been assumed to provide that any return less than six dollars an acre constitutes a failure, and this I take to be the case, although they would ordinarily signify something relative. I take the section, also, not to apply to a mortgage or contract which does not in some form carry interest.

The clause around which the controversy hinges is (3) and I find some difficulty in its precise interpretation. Apart from the proviso, its effect would be an immediate and actual percentage reduction on September 15th of the principal sum and the accrual of interest on the balance at the rate stipulated to apply in the circumstances of the day next following. But the proviso forces a modification of that simple result. If interest is to be charged "as if the principal had not been" reduced, either the same factors in the computation were intended to continue to be used, or the amount of interest to be maintained. In the latter case, treating the principal as actually reduced, the rate must vary with the deduction, and is to be that "at which interest will accrue immediately after the said date

(September 15)". On the present assumption, this, although mathematically possible, would involve calculating a decimal factor from what except to mathematicians would be a complicated equation on each ascertainment. To avoid that practical objection, some other rate would appear to be intended and, as counsel for Saskatchewan assumed, we return to the rate stipulated in the contract applied to the whole, i.e. the constructive principal. But this meets a further obstacle. No time is specified at which the charging of interest on the statutory reduction is to cease and if the interest is charged "as if the principal had not been so reduced", without a limitation implied it must continue payable in perpetuity. The appropriation of the reduction does not appear to be made to any particular part of the principal, and in the case of instalment payments many questions would arise. Conceivably the provision is not to affect the contract of interest up to the date of maturity; but a very few contracts for interest are limited to that point of time. Difficulties likewise would be encountered by special terms of the interest contract such as, for instance, that it should run until all of the principal money has been repaid and not merely until the obligation as to principal should be discharged. Assuming interest to accrue until the reduced balance has been paid, is the total principal then deemed discharged? That would in effect suspend the application of the deduction until the final payment of the remaining principal and would terminate the contract of interest on the discharge of the obligation for principal.

Interest is, in general terms, the return or consideration or compensation for the use or retention by one person of a sum of money, belonging to, in a colloquial sense, or owed to, another. There may be other essential characteristics but they are not material here. The relation of the obligation to pay interest to that of the principal sum has been dealt with in a number of cases including: *Economic Life Assur. Society* v. *Usborne* (1) and of Duff J. in *Union Investment Co.* v. *Wells* (2); from which it is clear that the former, depending on its terms, may be independent of

(1) [1902] A.C. 147.

(2) (1929) 39 Can. S.C.R. at 64

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the latter, or that both may be integral parts of a single obligation or that interest may be merely accessory to principal.

But the definition, as well as the obligation, assumes that interest is referrable to a principal in money or an obligation to pay money. Without that relational structure in fact and whatever the basis of calculating or determining the amount, no obligation to pay money or property can be deemed an obligation to pay interest.

Apart then from the difficulties presented in a plan for the payment of interest and principal to which section 6 of the *Interest Act* would apply, and to cases where by special stipulation interest becomes more than merely an accessory to principal, and whatever else may be intended, the indisputable effect of section 6 must be taken to be a reduction of the principal and the maintenance of the quantum of interest as if that deduction had not been made. That effect cannot here be overborne by any play with the words of inconsistent conceptions; we are bound to treat the statutory language as language of reality, and as carrying its plain and unequivocal meaning. On this view, and, assuming for practical purposes what seems to be implied by section 2 of the *Interest Act,* that interest involves a "rate" relationship to the principal, the statute works a change of rate as the principal is diminished, which, in the Crown's contention, is legislation in relation to interest, a field of civil rights committed exclusively to the Dominion.

Mr. Mason argues that the enactment is designed to promote the stability of agriculture and is valid under section 95 of the Confederation Act. The immediate operation of the statute is put on the theory of the prevention of the annual growth of certain debts where crop failure prevents the parallel growth of the wealth out of which economically and generally it is said they are contemplated to be paid, accomplished by extending to the creditor the risk of that failure now borne alone by the debtor; but viewed most favourably to the provincial contention, the statute only in a most limited manner embodies that conception.

It is confined to creditors who have security for debt on land and it assumes that in substance it is only to that land and its fruits they look for payment, and that the fortunes of the debt should be deemed wrapped up in the fortunes of its security. It does not apply to farmers who have availed themselves of the benefits of the *Farmers' Arrangements Acts* of the Dominion, although why on the theory advanced they should be denied its benefit is difficult to see. Then clause 8, by giving the Mediation Board power to exclude a contract or class of contracts, and having regard to clause 7, enables the benefit of the section to be overborne by economic or even ethical considerations quite incompatible with the notion of a debt contractually conditioned in a genuine risk; and whatever the legislature may have had in mind, the section invests the Board with a power to restrict its application to any condition or to any class of debtors whatever.

The conclusion of the argument is that with such a purpose in view, the effect on the contract of interest is incidental to legislation valid under the principle of the decision of the Judicial Committee in *Ladore* v. *Bennett* (1). The *ratio decidendi* of that case rested on the provincial power to create and dissolve municipal organizations for local government, including the delimitation of their capacity to incur liability; and the view that contracts with these bodies stipulating for interest are made subject to that power; legislation dealing in substance with such institutions might therefore incidentally affect contracts of interest.

The general interest of agriculture may be advanced by many legislative means, some within the jurisdiction of the Dominion and some within that of the Province; but not all legislation which in its ultimate results may benefit agriculture is for that reason alone legislation within section 95. There is obviously a distinction between legislation "in relation" to agriculture and legislation which may produce a favourable effect upon the strength and stability of that industry: between consequential effects and legislation operation. But beyond any doubt, the field of that section does not include that of Interest in a substantive

(1) [1939] A.C. 468.

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aspect, and in each case the question remains, what is the real nature and character, the pith and substance of the enactment? If it is in the strict sense legislation within section 95, then incidentally it may affect other areas of jurisdiction, the operation of which may depend on the impact on the underlying matter of legislation in relation to agriculture; but where that is not the case, the means employed to bring about the benefit intended must not be such as are forbidden to the provincial jurisdiction.

What is done by section 6, notwithstanding that it is confined to farm lands, is strictly a modification of civil rights: that is the substance of the section: any benefit to agriculture hoped for or contemplated would be a resulting tendency to hold farmers to the land and its cultivation. But the alteration of the contract involves, as an inseverable part of its substance, legislation in relation to interest, and it is, because of that, *ultra vires; Board of Trustees of Lethbridge* v. *Independent Order of Foresters* (1). In this respect lies its distinction in principle from *Ladore* v. *Bennett* (2). Whether the purported dealing with principal is in these circumstances and in particular the use of the interest rate, a colourable device to nullify the accrual of interest, I do not find it necessary to decide.

It was suggested, though not seriously urged as a material consideration, that there might be contracts providing for crop payments not related to money with "interest" accruing in the same form, to which the section would apply. If there are such contracts, on the material before us they are in number insignificant; and assuming that the "rate" of reduction is not incompatible with their terms, and that "interest" under the Act of 1867 would apply to such an increment of price, the clear intention of the section that the entire group should be dealt with as one does not permit us to say that one class of contract would have been the subject of legislation without the other, and any question of severability is excluded.

Then it was argued that the untrammelled scope of discretionary action given by section 8 indicates conclusively that the power was furnished as a means for assisting insolvent debtors by a compulsory reduction of

(1) [1940] A.C. 513. (2) [1939] A.C. 468.

debts, and doubtless the power could be used as a sub-legislative control for such an application of the section. It was also contended that the legislation interfered with the status and powers of bodies incorporated under Dominion law; that the Mediation Board in determining the fact of crop failure upon which the specific terms of the statute declared to be annexed to every mortgage and contract became operative was, in so doing, exercising jurisdiction that brought it within section 96 of the Confederation Act and its finding therefore a nullity; and finally, that in any event the statute could not apply to debts arising from loans made by the Dominion Crown either solely or jointly with others under the *National Housing Act, 1944,* or to loans made by the Canadian Farm Loan Board or assigned to the Central Mortgage & Housing Corporation. To these points, because of the conclusion to which I have come, I do not find it necessary to address myself.

My answer to the first question is therefore that section 6 of the *Farm Security Act, 1944* is wholly *ultra vires.* This dispenses with an answer to the second question.

KELLOCK J.—Argument against the validity of the legislation was submitted to us by counsel on behalf of the Attorney-General of Canada on the following grounds, namely, that it was (*a*) in relation to interest; (*b*) in relation to bankruptcy and insolvency; and (*c*) inconsistent with sections 96, 99 and 100 of the *British North America Act,* in that it confers powers of a court on a body not competently constituted to exercise such power. Counsel on behalf of the Dominion Mortgage and Investments Association supported these contentions and also urged objection on the further grounds that the legislation impairs the status and essential capacities of companies incorporated by the Dominion and that it provides for delegation of legislative powers and functions by the provincial legislature to the Mediation Board which is unauthorized under the *British North America Act.* Both counsel submit that even if some part, or parts, of the

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section is valid, such parts are not capable of severance. On behalf of the Attorney-General of Saskatchewan the legislation was supported under (*a*) section 95, agriculture in the province; (*b*) section 92, (13) Property and Civil Rights in the province; and (*c*) section 92 (16) matter of a local or private nature in the province. Counsel for the Attorneys-General of Quebec and Alberta also supported the validity of the legislation, counsel for the last mentioned basing his submissions on the additional ground of section 92 (14)—administration of justice in the province.

As has been so often said, it is necessary in an inquiry of this sort to ascertain the pith and substance or the true nature and character of the enactment in question; *Attorney-General for Ontario* v. *Reciprocal Insurers* (1). The next step in a case of difficulty is to examine the effect of the legislation. A closely similar matter which calls for attention is the object or purpose of the legislation; *Attorney-General for Alberta* v. *Attorney-General for Canada* (2). See also *Attorney-General for Manitoba* v. *Attorney-General for Canada* (3). I therefore leave out of consideration the 4 per cent. rate specifically mentioned in the statute as it was made perfectly plain before us that as things stand no such rate is currently operative and has not been for some time.

In support of the submission that the section trenches upon the federal jurisdiction, with regard to interest, counsel directed argument principally to paragraph 3 of subsection (2). This paragraph enacts (1) that the principal outstanding on September 15th in a period of suspension shall be automatically reduced by the percentage there described; and (2) that notwithstanding such reduction, interest shall continue to be "chargeable, payable and recoverable" as if the principal had not been so reduced.

If, according to the plain language of the sub-section, the *principal outstanding* is automatically *reduced,* it follows that interest ceases to accrue thereafter on the

(1) [1924] A.C. 328, at 337.
(2) [1939] A.C. 117, at 130.
(3) [1929] A.C. 260, at 268.

amount of the reduction. There can be no such thing as interest on principal which is non-existent. As by the proviso it is enacted that interest shall continue to be "chargeable, payable and recoverable", (language to be found in the *Interest Act,* R.S.C., chap. 102) as if the principal had not been so reduced, such a provision therefore can operate in no other way than as an increased rate on the amount of principal actually outstanding, so that the same amount of money in respect of interest will be produced after as before the reduction. This is in fact recognized by the Attorney-General of Saskatchewan in his submission that the amount required to pay off a mortgage after the statutory reduction has taken place is the amount of the *reduced principal,* together with an amount for interest equal to the amount which would have been earned had there been no reduction in principal. Such a result can be reached only on the basis that it is the principal in fact outstanding which bears interest at the higher rate, for otherwise if the proviso could be construed as continuing to attach interest to the amount of the statutory reduction, interest hereon would never cease to accrue and its running could only be put an end to by actual payment in money of the amount of the "reduction". Such a construction would render the legislation completely nugatory and it is not to be considered that the legislature had in mind any such result.

The submission of the Attorney-General is thus put in his factum:

> The amount required to pay a mortgage or indebtedness under an agreement for sale is the full amount of the interest owing to the date of payment, having no regard to the provisions of paragraph 3 of section 6 (2), together with the full amount of the principal, less the deduction provided for in that paragraph. The amount of the deduction is determined by the following formula: A deduction is made from the principal with respect to each crop failure year occurring in the year 1944 and in every subsequent year, consisting of a percentage of the principal outstanding on September 15th of each crop failure year (after taking into account previous deductions), which is either four per cent. or the same percentage as the *rate of interest stipulated in the mortgage* or agreement, whichever is greater.

In my opinion the above submission does not pay sufficient regard to the language of the statute. The

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statute does not say that the reduction of principal is to be at the contract rate. It provides that the reduction is to be by the *same* percentage

> "as that at which interest will accrue immediately after the said date on the principal *then* outstanding."

In other words, as the rate of interest which the principal outstanding must earn is increased that increased rate is the rate by which the reduction is governed and not the contract rate. This necessitates a somewhat difficult and cumbersome calculation but the statute so provides.

The effect of the statute will be found to be that it wipes out an amount of debt somewhat larger than the annual interest, while professing not to interfere with the amount of the interest. Whether or not this is to do indirectly what may not be done directly need not be considered. The statute in fact effects an increase in the *rate* of interest which, in my opinion, is beyond the power of the legislature of the province to do. While the matter of conditions in contracts within the province is no doubt a matter for the provincial legislature: *Citizens Insurance Company* v. *Parsons* (1); *Workmen's Compensation Board* v. *Canadian Pacific Railway Company* (2), contractual interest is the subject matter of exclusive Dominion legislative power under section 91 (19) of the *British North America Act;* the *Lethbridge* case (3).

In my opinion the legislation here in question is not in its pith and substance legislation within section 95 as being with relation to agriculture nor within any of the heads of section 92 but is legislation with relation to interest and governed by the principle of the above decision. To quote from the judgment of Viscount Caldecote L.C. (3):

> In so far as the Act in question deals with matters assigned under any of these heads to the Provincial Legislatures, it still remains true to say that the pith and substance of the Act deals directly with "interest" and only incidentally or indirectly with any of the classes of subjects enumerated in Section 92. Even if it could be said that the Act relates to classes of subjects in Section 92, as well as to one of the classes in Section 91, this would not avail the appellants to protect the Provincial Act against the Interest Act of 1927, passed by the Dominion Parliament, the validity of which, in the view of their

(1) (1881) 7 A.C. 96.
(2) [1920] A.C. 184.
(3) [1940] A.C. 513, at 531.

Lordships, is unquestionable. Section 2 of the Interest Act is as follows: "except as otherwise provided by this or by any other Act of the Parliament of Canada, any person may stipulate for, allow and exact, on any contract or agreement whatsoever, any rate of interest or discount which is agreed upon * * *" Dominion legislation properly enacted under Section 91 and already in the field must pravail in territory common to the two parliaments.

This language is in my opinion equally appropriate in the case at bar.

Reliance was placed by counsel supporting the legislation upon the decision of the Privy Council in *Ladore* v. *Bennett* (1), and that of the Court of Appeal of British Columbia in *Day* v. *Victoria* (2), approved of in the *Lethbridge* case (3). I would distinguish both these decisions. They are dealt with in the *Lethbridge* case (3) at pages 532 and 533, where it is pointed out that the legislation in question in each case was legislation in relation to a matter within section 92, while any provisions with regard to interest were incidental.

The jurisdiction allocated to Parliament under any of the heads of section 91 is "notwithstanding anything in this Act". I cannot think that because the particular contracts here in question are limited to those affecting farm lands this renders the legislation in its true nature and character any the less legislation with relation to interest or not in conflict with the provisions of section 2 of the *Interest Act*.

As already mentioned, while the direct attack upon the section upon the ground mentioned was limited to paragraph three, it was contended that if that paragraph were *ultra vires* then the whole section must fall to the ground as it could not be severed, even assuming that the remainder of the section were valid. In my opinion this contention is well taken. The provisions of section 6, in my opinion, constitute a code by which upon the happening of the event there described all the provisions of subsection (2) come into play. I do not think it can be presumed that the legislature intended to enact the provisions of paragraphs 1 and 2 of the sub-section without that included in paragraph 3. It is not therefore

(1) [1939] A.C. 468.
(2) [1938] 3 W.W.R. 161.
(3) [1940] A.C. 513.

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necessary to consider any of the other objections urged against the legislation. I would answer question 1 as follows: "Section 6 is *ultra vires* as a whole." It is therefore not necessary to answer the second question.

Solicitor for the Attorney-General for Canada: *F. P. Varcoe.*

Solicitor for the Attorney-General for Quebec: *Guy Hudon.*

Solicitor for the Attorney-General of Saskatchewan: *Alex. Blackwood.*

Solicitor for the Attorney-General for Alberta: *H. J. Wilson.*

Solicitors for the Dominion Mortgage and Investments Association: *Leonard, Sinclair, Goodenough, Higginbottom* and *McDonnell.*