brings up a point that is usually overlooked, namely that the depreciation practices of the two railways were quite dissimilar in the period before 1950. As a result, the recorded depreciation as accumulated by C.P.R. shows in their balance sheet of December 31, 1960, a total of $953.9 million against a property investment of $2,360.4 million. Whereas, C.N.R. shows total depreciation of only $627.5 million against property investment of $3,767.3 million. Had depreciation been accrued by C.N.R. on the same basis as C.P.R., its depreciation reserve would have approximated $1.5 billion and, consequently, our funded debt would have been reduced by about $900 million representing a saving of some $45 million annually in our fixed charges.

The MacPherson Royal Commission Report—Volume I

Against the background then, I should now like to make brief reference to volume I of the MacPherson royal commission on transportation. The summary of chapter II of that report, which appears on page 52, reads as follows:

> This chapter contains the analysis necessary to establish the principle which we believe to be basic to achieving any long-run solution to the problems which beset railways in Canada and to the establishment of a greater degree of equity amongst the users of rail transport. *The principle developed in that burdens, which are the result of obligations imposed upon railways by tradition, law and public policy, be lifted.* The increasingly competitive transportation environment, aggravated by price increases, occasions losses to railways because obligations to perform cannot be escaped even when the conditions which initiated these obligations have passed. The obligations make it necessary to pass on to the users of rail services the associated costs. The railways, to survive as an active component of the transportation environment, must meet their competition by price and service. This is only possible where national obligations do not distort their ability to do so. Insofar as they can be discerned, these national policy obligations should be removed in the long run by adjustments to plant and services. Where these national obligations cannot be removed, remuneration should be found for the services performed to prevent distortions in resource allocations and distortions in pricing of rail services.

The report then goes on, as you know, to recommend certain subsidies to take cognizance of disabilities incurred by reason of:

(*a*) passenger operations
(*b*) light density lines
(*c*) carriage of grain at statutory rates.

If the subsidies suggested by the commission for payment in 1961 had actually been paid to the Canadian National on their recommended basis in 1960, the Canadian National would have fallen short of breaking even by $9.7 million. Looked at in this light, it does seem that it may be possible to produce a viable financial environment for C.N.R. operations and that the deficit situation is by no means inevitable or chronic. In future appraisals of the C.N.R. financial structure, the deficiency which exists in depreciation reserves and the interest burden it represents could be an area for study in dealing with the problem of the large funded debt of the company.

Comparison With C.P.R.:

I have heard of late many references to the Canadian Pacific and comparisons of performance of the Canadian National with the Canadian Pacific. As I have stated before, the Canadian National, an amalgam of existing railroads, began with a polyglot inheritance of government lines built or acquired without hope of profit, while, on the other hand, the Canadian Pacific grew