Mr. Don Mazankowski (Vegreville): Mr. Speaker, I agree with the Minister of Transport (Mr. Lang) when he says this is not an insignificant piece of legislation. Any bill that writes off $808 million worth of debt is certainly not insignificant but rather a major piece of legislation. Any legislative measure that restructures the capital organization of a corporation of the magnitude of the CNR is certainly a major piece of legislation. I think it is fair to say that the impact of this bill will serve to place a heavy onus on management in terms of its financial operations in carrying out its mandate to operate an efficient and effective railway, both from the financial and from the service point of view.

I must begin by saying that I am somewhat surprised that it was not the Prime Minister (Mr. Trudeau) who introduced this bill because he was chafing at the bit back in December, challenging the opposition to bring forward such a bill because it would in effect save the taxpayers $100 million. That statement has not been forgotten and, as near as we can figure it out, it is as phony as the hollow proclamations he has been making on the economy. I am sure that it is this kind of bluffing and flippancy that causes Canadians to fail to build the necessary faith and confidence in the administration which is at the helm at present. One must seriously question the credibility of a leader of a government who mouths off such flippant and bluffing statements.

Writing off a debt of $808 million is one thing, but losing $65 million worth of interest as a result of that write off is another. While the government, under the provisions of this bill, will no longer have to purchase the 4 per cent CN preferred stock, which at this time would amount to $100 million, this does not translate into a saving of $100 million to the taxpayers. The $100 million at this time is the combination of that which is left owing for the current fiscal year plus the total for the next fiscal year.

In addition to the bill writing off $808 million worth of debt and converting it to equity, it cancels the purchase of the 4 per cent preferred stock by the government which is based on 3 per cent of the gross earnings of the CN system. As I said earlier, the bill also essentially reorganizes the capital structure by converting $1.5 billion worth of preferred shares now held by the government into common shares. It also provides for the payment of an annual dividend by CN of 20 per cent of the net income after interest, depreciation and taxes are met. Also, it provides for the CN to borrow money to meet its deficits. No longer will parliament be called upon to cover the deficits through parliamentary appropriation.

The $808 million arises from changes in accounting procedures with respect to the depreciation which was introduced back in 1940, 1954, and 1956 in a phasing in process. This is covered at page 21 of the 1976 CN annual report in a footnote to the consolidated financial statement. I should like to quote it because this is primarily the issue which surrounds the $808 million debt. I quote from page 21 of the 1976 annual report of Canadian National Railways as follows:

• (1652)

> For Canadian properties, depreciation accounting was introduced for equipment in 1940, for hotel properties in 1954, and for track and road structures and all other physical properties except land in 1956. For United States properties, depreciation accounting was introduced for ties, rails, other track material and ballast in 1976.

Because there were no profits to speak of, depreciation was not taken during these periods. If depreciation had been taken, as it probably should have been, the deficits would have been higher or the profits would have been lower, as the case may be. As all members are aware, profits have been recorded for only a few years. Now the theory is that the deficits would have been higher and parliament would have been called upon to provide the shortfall. In that event, Canadian National Railways would have had additional money for capital expansion. Because this did not take place, the railway now believes it is justified in coming before parliament at this time to ask for this adjustment and a cancellation of the $808 million which has arisen as a result of accumulation of depreciation that was not taken into account in prior years. This argument is based upon the assumption that in its wisdom parliament would have seen fit to provide these funds over the past years, and that this allocation would have been reflected in the amount of deficit recorded by CN.

This fact was clearly explained by the current president of the CNR, Mr. Robert Bandeen, when he appeared before the Standing Committee on Transport and Communications on March 29, 1977. Mr. Bandeen said:

> We contend that because proper depreciation was not charged over the years—and it was proper at the time, and I should not use that term, I do not mean that it was against accounting principles, but it was on a different theory—that the deficits would have been higher or the profits lower over the years and, indeed, we would have had that money to finance capital expansion. Because we did not have this, we had to go out in the market and borrow money or borrow money from the government. So, we are saying that should be recognized and we should have a chance to make that change.

In effect, CN is indicating that depreciation on its own represents a cash flow to the company. I believe that is a rather strange application because such is not necessarily the case with regard to the private sector. It is fair to assume that in the private sector depreciation charges must be earned, and these funds must be available in order to take advantage of that depreciation. It seems this is being overlooked by CN completely.

Now it is suggested that the deficits covered by cash payments from the treasury were understated, as a result of the failure to take into consideration depreciation which could have been charged over the years. On this basis, from 1923 to 1955—and I use the year 1955 because 1956 is the year when the depreciation formula was changed for road, track and physical properties—this would have meant an additional deficit of more than $24 million on an average basis per year over those 33 years. Thus, one would have to question seriously whether parliament would have willingly provided the funding in face of the commitments and what transpired during the recapitalization in 1937, and particularly, the recapitalization in 1952 which placed CN in as good a position or perhaps an even better position than its competitors.