

Mr. MCGREGOR: One major effect was the trans-Atlantic carriage rate. The domestic mail carriage contract between the post office and T.C.A. does provide, however, for a descending rate per ton mile as the volume increases.

Mr. FULTON: I do not want to anticipate something on pages 10 and 11, but I would like you to explain it. Perhaps that would obviate a further question. You say that mail also was carried in greater volume, the company flying a total of 7,704,144 ton miles, a rise of 11 per cent; and then you say the airline received three per cent more revenue than in 1954, but mail pay per ton mile dropped one per cent despite an 11 per cent rise in volume; and on page 11 you say "under the terms of the company's domestic mail contract, which calls for lower unit payments as traffic volume increases, the airline received three per cent more revenue than in 1954".

Mr. MCGREGOR: Yes.

Mr. FULTON: Will you please reconcile those two things?

Mr. MCGREGOR: The reference in the text on page 5 is to a system figure whereas the rate of increase on page 11 refers to the domestic operations as distinct from the system which includes the overseas services.

Mr. FULTON: I shall wait for the particulars of that until we get to page 11. Is that contract so advantageous to the post office that in effect as you carry more mail you would get less revenue?

Mr. MCGREGOR: No. The contract with the post office refers specifically to domestic carriage of mail, and our "take" from the post office will increase as the volume increases, but not as readily as the volume increases. But this overall system figure of an 11 per cent increase in volume reflects the whole operation and includes the overseas, which had a sharp drop in rate in the latter part of 1954.

Mr. FULTON: You say it is entirely due to the sharp drop. Is that the subject of a contract with the post office also?

Mr. MCGREGOR: No. It is an agreed international rate which the Canadian post office honours.

Mr. FOLLWELL: Does this indicate that you are carrying mail at a portion of your capacity? Does it mean that in spite of carrying more mail there is no more load on the aircraft because you had the capacity to carry it?

Mr. MCGREGOR: The capacity of an aircraft can be used in a wide variety of differing proportions with respect to passengers, express, mail, or air freight.

Mr. FOLLWELL: You were not running underloaded before then?

Mr. MCGREGOR: No. I think we were operating less frequently.

The CHAIRMAN: On page 5 there is an item with respect to interest expense which is considerably higher in 1955 than in 1954. Is that increase in interest expense attributable to the purchase of new aircraft?

Mr. MCGREGOR: It is primarily due to larger operations. We performed about 18 per cent more ton miles of service, and a large share of that interest is associated with the maintenance required therewith.

Mr. FULTON: Interest expense?

Mr. MCGREGOR: I beg your pardon. That is entirely due to the purchase of aircraft. We have moved in two years from \$11½ million on loan to \$13½ million borrowed.

Mr. KNIGHT: That increased space is not being used. I was thinking of the question of availability. There is much greater availability of space, while the use has not gone up proportionately.

Mr. MCGREGOR: We say that we increased the capacity to a greater extent than we expected the traffic to increase, and actual experience has brought about exactly the conditions to which you refer.