

Trans-Canada Air Lines Act

The logical step would seem to be to amalgamate the two companies and avoid excessive taxation against the domestic company.

There is another feature. The capital of T.C.A. is represented by common shares requiring a fixed payment to Canadian National Railways. The company has no funded debt although in my judgment, and I think in the judgment of most people, common stock that requires a fixed payment of 3 per cent is in reality more in the nature of a bond or debenture. It is proposed to retire \$20 million of the \$25 million and to substitute a \$20 million bond which will represent that part of the capital. This is a further effort to bring the financing of the company more in conformity with commercial practice.

Mr. Green: Bearing interest at 3 per cent?

Mr. Howe: The bond will bear interest at 3 per cent. The shares will be like other common shares; they will pay such dividends as the directors may determine and as the financial condition of the company will permit.

There are other minor changes. The number of directors is being increased from seven to nine to provide representation to parts of the country not now represented on the board of directors. The other changes that will appear in the bill are more in the direction of tidying up the act rather than being of importance in themselves.

Mr. Macdonnell (Greenwood): Is the minister sure that the hard-boiled Department of National Revenue will not regard this as a tax-evasion scheme? It seems to me that the splitting up of the capital is a reasonable arrangement. Why should T.C.A. pay a lower rate of interest than the government now pays?

Mr. Howe: I was not correct when I said that the new rate would be fixed at 3 per cent. The rate will be the commercial rate at the time the bond issue is made.

Mr. Macdonnell (Greenwood): Will it be a public issue?

Mr. Howe: No. T.C.A. is a subsidiary of Canadian National Railways. The capital was provided by the government to Canadian National Railways and by them to Trans-Canada Air Lines. The \$20 million share capital will be returned to Canadian National Railways and reloaned by them against a bond which will bear the current rate of interest for that type of bond and for the period for which the bond is made. It will be a commercial transaction in every way.

My hon. friend asked if there was evasion of taxation. This is simply an arrangement that bears out the facts. The original idea was that there would be two companies, each of which would stand on its own feet. If there was to be a deficit in either company the wealthy uncle, the government, would make good that deficit. We have never accepted that version of the arrangement; we have always said that T.C.A. is one entity as far as the government is concerned and if one branch makes money and the other branch loses money, the wealthy branch would have to support the poverty-stricken branch. We are simply making legislative provision for that arrangement.

Mr. Macdonnell (Greenwood): The minister does not feel that a crown corporation should have a higher standard in its attitude toward taxation than just an ordinary corporation?

Mr. Howe: No; it brings the act in conformity with commercial practice.

Mr. Macdonnell (Greenwood): With respect to the question of the number of directors, so far as Canadian National Railways are concerned, which have a small number of directors, I have raised the question whether it would not be desirable to have a much larger and more representative board. Would the minister say a word as to his attitude toward the question of increasing the number of directors, which I see he proposes to do here?

Mr. Howe: I had something to do with the reorganization of Canadian National Railways in 1936. Previously the board had consisted of 23 members, I believe, who were all part-time directors receiving an honorarium. It was thought at that time that the railroad was not receiving the attention from the directors that its affairs would seem to warrant. The number had been first reduced to a receivership of three in 1932 or 1933 when the board of 23 was done away with. A receivership of three was installed at that time, and in the reorganization of 1936 it was decided that a board of seven would be large enough to give reasonable representation and small enough so the directors could be paid a salary and be expected to live where they could attend meetings of the board and give their continuous attention to the affairs of the railroad.

It has worked out rather well. Vancouver no doubt would be very honoured to have a director on the board; but could anyone guarantee that that director would attend the meetings which I believe take place every week? We have a member from Saskatchewan, but in every case the member from Saskatchewan has moved to Montreal