Mr. CHEVRIER: May I ask a question here that arises under the heading of "Financial". I think the committee will be happy to learn that there is another small surplus in T.C.A. Is there anything the president can suggest to the committee that would increase the surplus, either through domestic operations or overseas operations?

Mr. G. R. McGREGOR (*President, Trans-Canada Air Lines*): Mr. Chevrier, I think the basic function of T.C.A., as I understand it, is not necessarily to have large profits. We have always operated under the policy that any threat of large profits, after paying the required return on the capital invested in the enterprise, would take the form of fare reductions.

This policy was implemented again on January 1st, 1958, when the tourist fares were reduced, by about 20 per cent on an average, and it was our hope that we would be able to put in another general fare reduction on January 1, 1960. The effect of the dilution of the airlines' revenues with respect to the trans-continental services will, I think, make that impossible. But that has been the policy throughout the company's corporate life, and I think it is a proper one and should be followed.

I do not see why the airline should strive to make profits as profits; I think it should strive to keep its expenses at the lowest possible practical level and relate the fares to that level of expense.

Mr. CHEVRIER: What effect, if any, do you think the decision of the Air Transport Board, authorizing this once-weekly service of C.P.A. from Montreal to Vancouver, will have on the financial position of T.C.A.?

Mr. McGREGOR: May I correct that, Mr. Chevrier. It is not once-weekly; it is once-daily, both ways.

Mr. CHEVRIER: I am sorry; once-daily.

Mr. McGREGOR: I have forecast the effect on T.C.A., with respect to the period May 4 to December 31, 1958, as being a diversion of T.C.A. revenue in the amount of $3,762,000. That, with respect to a full year of operation, would go up to $5,150,000.

Perhaps I could answer your question a little more fully, Mr. Chevrier. These figures, of course, are very substantial and they make the obvious difference between a net surplus and a deficit. If Mr. Chevrier would like, either now or later, I could take him through the calculations, which are based on the seat miles which are scheduled—a quite low percentage of occupancy of those seat miles—and the application of the known fare.

So the only variable that we may consider to be in these estimates is the percentage of occupancy, which we have forecast.

Mr. CHEVRIER: Is there no way of you recouping yourself for this loss in some other extension of services?

Mr. McGREGOR: We would hope so, but there is very little that can be thought of, with respect to the domestic operation, that is a sound economic proposition, or I think it would have been done in the past.

We would expect that the gradual expansion of international operations would lead us back into what we would hope would be a surplus position.

Mr. CHEVRIER: I want to ask you about that again, but I think I should allow somebody else to ask questions now.

Mr. BROOME: Your report shows that between 1957 and 1958 there was a growth of 35 per cent in net income and a growth of 15 per cent in revenues. Are you not ignoring entirely the normal growth aspect of this matter when you make that reply to Mr. Chevrier?

Mr. McGREGOR: Not at all. The normal growth that has taken place—which has been an average of 15 to 17 per cent in past years—tends to offset the steady increase in the cost of labour and materials, which all go into the cost of the product.