

Mr. KNOWLES: I would hate to go into that because there are so many opinions as to what constitute out-of-pocket costs.

Mr. FISHER: I imagine we are going to get representations from trucking interests later on this point, and I would just like to start with a little information as to what you define as out-of-pocket expenses.

Mr. KNOWLES: I would rather produce somebody here who is a cost accountant, who could give you all those definitions. But I have had to use them myself as freight traffic manager in the Canadian National Railways on many rates. When a shipper came to me and asked for a very low rate, and I knew it did not fit into the normal picture, I used to ask our research department to tell me whether that was a remunerative rate or not. I had great difficulty in ascertaining what rate I should charge, because we have certain positive figures. We know the wages of a train hauling freight; we know what it costs for coal; we know what it costs for oil and that sort of thing. But when you get into the realm of comparing the cost of maintaining the track over which a freight train runs and over which a passenger train runs you get into the realm of arbitrary divisions regarding rates.

We had an investigation, as required by a parliamentary committee, of the cost of hauling coal from Alberta into Ontario and, based on the evidence, we obtained three different results. Different commissioners took a different view of it. One commissioner said the out-of-pocket cost is just the wages and the coal in running that train. The next one said, "You have to add something for the maintenance of the track and the equipment". The other one said, "You have to add overheads too".

It finally ended up by the board getting an expert from the Interstate Commerce Commission, who went into all the figures and said, "This board is not entitled to use cost figures of that kind in determining rates. You have to cover all your costs, and the normal rate just about covers the total distributed cost".

I have issued one or two decisions, in the last year or two where I have said that a rate should not be established unless it covers all fully distributed costs. The great difficulty is to find out what that cost is.

Mr. FISHER: This is a very contentious point, is it not, to competitors of the railway?

Mr. KNOWLES: That is right; it is very, very contentious, Mr. Fisher.

Mr. FISHER: Let us take a situation such as you have with agreed charges. Are most agreed charges supposed to be, or are they required to be, remunerative or compensatory?

Mr. KNOWLES: They were, under the original legislation; but they are not now since the act was changed in 1955. Practically the only thing we have to do with agreed charges is, they are filed with the board for information and the only time that we get into any question of the rates under the agreed charges is when some shipper complains that he ought to have the same rate, or a similar rate, somewhat a little higher or somewhat a little lower. Then we go into the whole story.

Mr. FISHER: There was a tremendous acceleration the last year or so in the number of agreed charges. Do you agree with that?

Mr. KNOWLES: Yes.

Mr. FISHER: Do you see this subsidy having any effect upon the rate of entry into those agreed charges?

Mr. KNOWLES: It might have a slight effect. With 7 per cent taken off the normal rate, it may not be necessary to make a contract rate under an agreed charge. I do not know, but I would say it would not make very much difference on the agreed charges.