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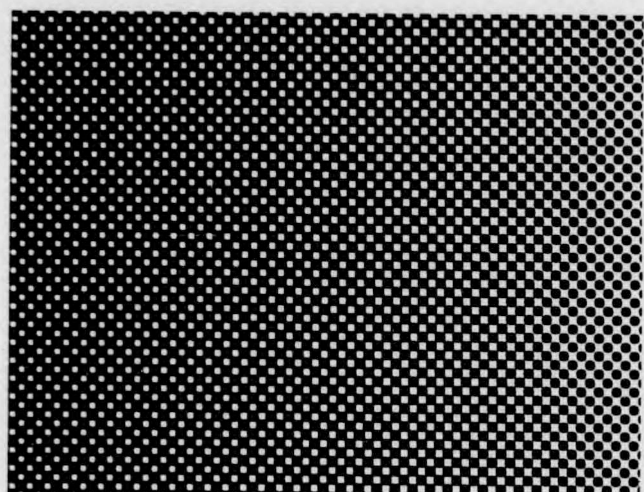

THE GREAT TRAIN ROBBERY

"The train's pretty full tonight," said one conductor to another as the Canadian Pacific Railway's sleek Canadian headed through the smoky industrial area of Montreal toward Windsor Station, coming in from Ottawa on the final leg of its transcontinental trip.

"It usually is," said the other conductor. "They could fill another Ottawa-Montreal train too if they scheduled it properly. But they won't."

"It doesn't make any sense," agreed the first conductor. "Crazy company we work for."

If they thought that their employer had lost the business acumen and eye for profit that had built it into a conglomerate with a net income of $80 million a year, they needn't have worried. For making money on its passenger services is not part of Canadian Pacific's grand design. In fact, on some of its passenger runs, it is to the ultimate corporate benefit of Canadian Pacific to lose as much money as it can.

CPR trying hard to give up on passenger service

It has been a long time since the CPR has even made any pretense of wanting to be in the passenger business. Five years ago the late Robert A. Emerson, then CPR president, said that he could "see no prospect of being able to attract to passenger trains people in sufficient numbers at prices they are willing to pay to defray the expenses incurred," and every CPR executive who has felt it necessary to express himself on the subject of passengers has echoed that position.

However, Emerson and his successors have sometimes tried to give the impression that they have tried everything to make rail travel attractive, only to be spurned by an unappreciative public. The facts are somewhat different.

Under the National Transportation Act, passed by the Pearson government in 1967, a railway wishing to abandon a passenger service or branch line must first prove that it is losing money on the service to the satisfaction of the Canadian Transport Commission, the body set up by the government to administer transportation policy. Then the CTC, after considering "all matters that in its opinion are relevant to the public interest", will rule on whether the railway can go ahead and abandon it. If it rules that it is not in the public interest for the service to be abandoned, the railway must keep it going and the government will subsidize its losses on the service to the extent of 80 per cent.

Two years after the Act was passed, the railways made their first applications for abandonment. The government-owned Canadian National Railways applied to abandon thirteen of its passenger runs, mostly serving out-of-the-way towns where there are few, if any, alternatives to rail transportation. The CPR applied to abandon its entire passenger service except for its Montreal commuter routes.

The CTC is expected, although not required, to hold public hearings on applications for abandonment (Transport Minister Don Jamieson assured the House of Commons last fall that everyone would get a chance to say his piece, noting that under the National Transportation Act "the public interest is quite well protected"), and it decided to begin in Guelph and Owen Sound, Ontario, with hearings on the abandonment of passenger links between those communities and Toronto.

From the railways' point of view, the experiment with public hearings was a disastrous failure. University professors, housewives, students, provincial government economists, commuters all turned up with evidence that service should be continued.

The CPR decided that, in its next move, it should proceed with somewhat more circumspection, in cancelling three of its five Ottawa-Montreal trains, it would make sure that it had built up an incontrovertible case that the runs were uneconomic. And it would, if possible, try to avoid public hearings.

To achieve its first goal, it rescheduled its trains to make them as inconvient as possible. A morning train was pushed forward from 8 am to 11:30 am, to render it useless for people who wanted to make a one-day trip. An evening train from Ottawa to Montreal was rescheduled to pass through Montreal West station at 9:50 — missing a connection for New York by five minutes.

Meal service was curtailed, and prices were raised. A bacon-and-eggs breakfast that had cost $1.95 now cost $2.75 a la carte (including 20 cents for toast, 30 cents for marmalade or jam, and 40 cents for tea or coffee).

CPR trains, instead of attracting an average of 150 customers, now attracted an average of 40.

Then the railway, complaining that it was losing money, announced that it would cut out three trains daily in each direction on August 1, leaving only the Montreal-Ottawa leg of the Canadian and one other train in service. And since this was only a reduction of service and not a discontinuance, it claimed the right to do this without getting permission from the CTC.

The CTC, and its chairman Jack Pickersgill, agreed to the CPR's definition of its powers. It raised no objection to the dropping of the Montreal-Ottawa trains, although there were outcries from everyone from the Canadian Railway Labour Association to The Montreal Star.

Meanwhile a larger battle was shaping up. Among the trains the CPR had applied to discontinue was the Canadian, the last remnant of its once-proud transcontinental service. The CTC said no, and told the CPR to prepare a 'rationalization' plan to cut the Canadian's losses. The CPR's plan, submitted on July 20, the deadline given by the CTC, included reducing the Canadian to three days a week, except in peak periods, and cutting out dining and sleeping car service. Again, customers would be driven away and it would be only a matter of time before the Canadian was dropped completely.

Unable to escape public hearings, the CTC proceeded to schedule them for the most inconvenient possible time — mid-to late-August, when many people would be on vacation, when farmers would be out harvesting, and before anyone except the CPR would have time to prepare briefs.

CTC hearings are made harder for people to attend

Faced with protests over the timing, Pickersgill, who hadn't spent half his life with the likes of Mackenzie King and Paul Martin without learning how to weasel out of a question, said the possibility of holding hearings at places east of Winnipeg had been under study, and in order to provide the 60-day postponement requested by anyone with reasonable grounds for a delay, the Commission is willing to hold additional hearings after the end of September. However, "the Commission has decided to proceed with the hearings as announced, in order to give Canadian Pacific an opportunity to elaborate on its proposals, to be questioned on them, and to enable other parties to proceed with their submissions, if they are ready to do so." On the key question of whether additional hearings would be held in the west, Pickersgill said nothing.

The CPR's tactics, and the government's docility, were a familiar story. For the CPR had once had three daily transcontinental trains. One was dropped in 1959, and in August, 1965, the railway announced that it would drop a second one, the Dominion, on September 7. The Board of Transport Commissioners, predecessor to the CTC, on September 1 issued an order that "the Canadian Pacific Railway Company shall continue to operate the present passenger service provided by the Dominion until the Board orders otherwise."

Prevented from dropping the Dominion, the CPR did the next best thing. The Dominion that left Montreal for Vancouver on December 7, 1965 had no sleeping cars or dining cars — it consisted of an engine, a baggage car, and two coaches. Passengers stayed away in droves. On September 28, the CPR again asked for permission to drop the Dominion. Again, the BTC was faced with unkind remarks about the way the CPR had "complied" with its order. Chief commissioner Rod Kerr replied that "the basic purpose of the Board Order was to continue the Dominion. Seasonal changes in the consist of the train have been made from time to time and the Board did not treat the Order, regardless of the fact that it was and is susceptible perhaps to a different interpretation, the Board did not treat the Order as precluding the company from initiating such changes, such seasonal changes."

Meanwhile, the CPR claimed that it had to cancel the Dominion because it needed the diesel power to haul the wheat that the Canadian government had just sold to the Soviet Union. This, however, was evidently an afterthought, since even CPR president Emerson admitted that "before advice was received by Company officers from the Government of the proposed increase in wheat sales to Russia, plans for the discontinuation of the Dominion were well under way, although no decision had been announced."

On January 7, 1966, the BTC authorized the CPR to drop the Dominion. By January 11, the Dominion had vanished without a trace. The Board said it might require the CPR to revive the Dominion for the busy summer season, or perhaps for the Centennial travel boom in 1967, but it never did.

* * * *

The CPR, however, is not just a railroad. According to J.L. McDougall, the railway's official historian, railway profits in the early years were so enormous that a "happy accident" occurred: the CPR became an economic empire.

Yet despite the fact that the railway was earning a fortune, its officers depended on the Canadian people to subsidize its empire. The Crow's Nest Pass agreement of 1897 "extended public assistance toward the building of a railway line which gave to the Canadian Pacific Railway for the taking its mineral-metallurgical empire of southeastern British Columbia. The Company has long governed and exploited this empire through the agency of its subsidiary, the Consolidated Mining and Smelting Company, in which the Canadian Pacific owns about 51 per cent of the capital common stock" (Saskatchewan Government submission to the Royal Commission on Transportation, 1960).

CPR's mines are supported by taxpayers

The CPR's extensive activities in mining have been supported by the taxpayers to the present day, by means of tax holidays. The Carter Commission Report recommended shelving these tax holidays; the government has apparently decided to shelve the Carter Report instead.

In 1962, the CPR, finding by "happy accident" that it had umpteen subsidiaries in Canada and throughout the world, formed Canadian Pacific Investments to coordinate the operations of the major mining, oil and gas, logging, hotel and real estate operations of its economic empire.

The Company and its **fully owned** Canadian subsidiaries had a net income in 1969 of $55,772,000, according to The Financial Post. Cominco, owned 53 per cent by Canadian Pacific Investments, had a net income of $32 million. Pine Point Mines Ltd. had profits in 1967 of $34 million — (CPR has 37 per cent ownership in Pine Point). But the CPR tells us it can't afford to run a transcontinental passenger service or reduce its freight rates for farmers.

Public outcry against various practices of the CPR throughout the years led almost from the beginning to the creation of regulatory bodies. But, like the government that set up the railway, these bodies have consistently stood up for the "rights" of the railway to earn a profit rather than the right of the Canadian people to get a fair deal from the economic empire taxpayers' money built (and is still building).

The Canadian Transport Commission, which was set up in 1967 to rule on requests by the railways to discontinue passenger runs, is such a business-oriented regulatory body. Its $40,000-a-year chairman is Jack Pickersgill. Pickersgill's comments to a Canadian Manufacturers' Association meeting in June indicate what the public can expect from the CTC.

"The public attitude to transport is still suffering from a hangover from the days of railroad monopoly — If the new transportation policy is to serve the public interest fully it is essential that, so far as possible, transport services be operated on business-like lines with economic viability as the main test of efficiency and adequacy. It is just as moral and just as praiseworthy to operate a railway at a profit as it is to make a profit manufacturing motor cars."

Exactly the CPR's attitude, and it has done rather well at getting the CTC to allow it to discontinue various runs. The CPR says it will provide passenger service when and where it can recover its costs from passenger revenue. Where it can't, it claims a lack of "effective demand" for the service. The discontinuation of the Dominion in 1967 was a case in point.

Giving evidence to the committee, CPR Vice-President Ian Sinclair estimated revenue from the Dominion at 20 per cent to 25 per cent total passenger revenue for 1964. Expenses were 25 per cent to 30 per cent of total expenses on passenger service in the same year. The estimated revenue from the Dominion in 1964 was between $8.96million and $11.2 million; expenses were between $17.7 million and $21.2 million, creating a estimated deficit of between $8.74 million and $10.0 million.

The company took this estimated deficit to mean that there was no longer an effective demand for the Dominion. In terms of economics, effective demand refers to both a willingness and ability to pay for a good or service. The CPR suggests willingness to pay and ability to pay must be equal to the price demanded by the supplier of the service.

Prices, however, are the result of demand and supply. But a private supplier in a near monopolistic position, like the CPR, simply sets the price without any regard to the customer and tells us that supply, demand and price are one and the same thing.

The Company rejects the idea that other rail services or non-rail subsidiaries be called upon to subsidize losses resulting from a particular rail passenger service. It considers such a practice a misallocation of resources.

The company also points out that while rail passenger service is receding in North America, air transportation is growing to an unprecedented degree. A greater return on investment can be realized by the company in airline transportation than in railroad passenger transportation.

In short, for the CPR, profit is the sole criterion by which one measures the proper allocation of resources. And as the Company pointed out in its brief, what is good for the CPR is good for the people of Canada.

A railway company's pricing policy or rate structure can indeed be flexible in response to a sagging demand, despite the fact that its expenses in handling additional customers will tend to increase.

Moreover, this problem of insufficient patronage of passenger services can only be solved if the company is willing to reduce fares and increase the quality of service.

Poor service and high prices cause problems

For a long period before the introduction of lower passenger rates, neither of Canada's two major railways seemed too concerned about loss of passengers. When the problem became serious, both lowered their fares to recapture the lost traffic. But while the publicly-owned system marketed the new approach in an imaginative fashion, the CPR did nothing in terms of providing better quality service.

As a result, though on the average the CNR carries only twice as many passengers as the CPR, the CN attracted almost ten times as many new passengers as did the CP in 1963 and 1964.

The CPR is forever telling its tales of woe with the aid of highly misleading statistics. For example, the CPR brief on the Dominion said:

"The effective fare which is measured by the revenue per passenger mile on the basis of actual passenger revenues received by the company in 1965 was only 2.73 cents, compared with 2.72 cents in 1949. In contrast, the Consumer Price Index, as published by DBS increased by 39 per cent from 1949 to 1965."

Such a comparison implies that while all other prices had gone up, the CPR's prices had not. In other words, the CPR was unable to meet the cost squeeze. Why does it quote only passenger revenues in comparison with the Consumer Price Index? Let the Company produce its other revenues, item by item, to show that it hasn't been able to keep up with rising costs.

One must question the kind of revenue statistic the CPR chose to illustrate their point. Some other comparisons the CPR might have used are suggested in the following table.

The CPR empire

Canadian Pacific Steamships Ltd.: operates on both the Atlantic and Pacific coasts.

Canadian Pacific Transport Co.: operates 1,076 pieces of equipment including trucks, trailers and tractors in Manitoba, Saskatchewan, Alberta and British Columbia.

Smithsons Holdings Ltd.: owns Smith Transport Ltd., Canada's largest trucking concern, and a number of related companies in the highway transport business.

Canadian Pacific Oil and Gas: has petroleum rights over 23 million acres in Western Canada.

CPR Hotels: 11 hotels across the country.

Marathon Reality: wholly owns, among other things, the $35,000,000 Place du Canada in Montreal.

COMINCO (formerly Consolidated Mining and Smelting) owns or controls:

National Hardware Specialties Ltd., Dresden, Ontario, (zinc die casting plant)

Western Canada Steel Ltd., Vancouver. .

Pine Point Mines Ltd., Trail, B.C.

Pacific Coast Terminals Co. Ltd., New Westminster.

Rycon Mines, Yellowknife (gold mining).

Coast Copper, Trail.

Sunco Mines Ltd., Trail, (copper).

In addition, CP operates airline, telegraph, telex and teleprinter services. It also has railway interests in the U.S., zinc interests in India, its fertilizer, lead and electronics parts plants in the U.S., its lead smelter in Japan, some fertilizer plants in Canada, six hydroelectric plants in B.C. and some pipelines.

	CPR Index A	CPR Index B	Agric. Index	Consumer Price Index
1949	100.0	100.0	100.0	100.0
1954	111.1	103.5	92.7	116.2
1955	117.5	103.4	91.1	116.4
1956	131.0	106.2	91.8	118.1
1957	141.5	106.2	91.6	121.6
1958	139.8	113.2	96.1	125.1
1959	151.6	109.8	96.8	126.5
1960	168.0	111.2	97.8	128.0
1961	171.7	115.3	102.2	129.2
1962	172.8	113.5	106.4	130.7
1963	164.1	109.4	101.4	133.0
1964	179.6	89.7	104.4	135.2

Source: DBS: Catalogue Nos. 52-201 and 52-202 (1965)
DBS: Canada Year Book 1957-1965
Note: Index A is the "average per passenger train mile revenue" of the respective railways. Index B is the "average revenue per passenger mile" of the respective companies. In both cases the year 1949 equals 100.0.

In the table the "per passenger train mile revenue," (index A) for the railway steadily increased over the years. Index B, "per passenger mile revenue," the statistic quoted by the CPR does not show the same characteristic. Why this apparent contradiction?

Index A shows that the CPR's revenue for each mile of passenger service was rising much faster each year than the consumer price index — unlike the farmer's income. This occurred largely because there was a reduction in the total number of passenger trains while the number of passengers did not decline as fast.

The "average per passenger mile revenue" declines because the additional cost associated with carrying more passengers does not increase at the same rate.

So while CPR complains that it isn't making as much money per passenger, it isn't admitting that passenger revenues as a whole are not falling in relation to costs. In fact, the CP had an increase in passenger revenues after reducing fares in 1963.

Moreover, both railways showed a decline in the passenger services deficit that year. In 1964 the CN was able to increase the number of revenue passengers carried by 14 per cent over 1963 while its passenger services revenue increased by 16.7 per cent. In the same period, the CP increased the number of passengers carried by 3.7 per cent while its revenues increased by 0.6 per cent.

The reason for the inability on the part of the CPR to hold its share of the market is the continued deterioration of the quality of its services. The CPR denies that it has been downgrading passenger service. Yet it is clear that after 1961 the Company curtailed the type of accommodation available on the Dominion during the non-summer months. The CPR President testified:

"In 1960 there were certain changes. . .The winter consist of the Dominion was substantially reduced. . .The number of cars and type of accommodation provided by the train were curtailed, specifically through sleeping car services between Montreal and Vancouver, which were no longer provided."

Second, the Company admitted to the practice of assigning old passenger equipment to the Dominion consist. Third, it is painfully apparent that the CPR does not have an effective reservations system. Fourth, the CPR made it clear that it had drastically curtailed investment in passenger equipment.

Giving evidence to the Transport Committee, Company officers said that between 1954 and 1955, the CPR invested some $60 million in passenger rail equipment. About $40 million was invested in stainless steel cars which came to make up the "Canadian" consist. An estimated 50 diesel locomotives with high speed gearing and equipped with steam generators were purchased for passenger service. Also an estimated 54 rail diesel cars were purchased to replace old passenger equipment on secondary main and branch lines.

During the intervening years, the Company has converted old passenger cars to work cars or has scrapped them. It has continued to convert passenger diesel locomotives to freight service by changing the gearing system. By 1966, the CPR had only 28 passenger diesel locomotives in service.

The Company says is was compelled to use old passenger equipment on the Dominion, because:

". . .there is no conventional rail passenger equipment being made in North America, and there has not been any for quite a number of years. I would say certainly none has been made in the '60's."

Mr. Sinclair's explanation cannot be taken seriously since the Canadian National Railways has greatly improved its passenger equipment. The CNR, by expanding the scope of their passenger rail service, investing in and improving passenger equipment, has experienced a significant increase in passenger patronage. As a result it has been able to reduce dramatically its operating deficit. In comparison, the CPR's passenger program is revealed as a fraud.

The CPR has subscribed to the CTC Chairman's view that its moral purpose is to make a profit. For almost a century now, the CPR, has been exploiting the Canadian people in so many ways in order to build an economic empire.

Expropriation of CPR holdings may be an answer

Undoubtedly the CPR would be very pleased to have its unprofitable passenger service nationalized. Then the Canadian people would have the passenger service they were promised in 1880 "in perpetuity," but they would be paying for it a second time. In a similar way most bus companies only became public after their profits had dropped to nothing (and street car companies when they were on their way out).

It is time the Canadian people rejected the CPR's dogma that each section of an industry must make a profit or be discontinued. Since the CPR empire was built with tax dollars, it ought to be reclaimed for the taxpayer through expropriation. Then the public interest could be considered when decisions are made regarding passenger services, freight rates etc. The profits from Pine Point Mines alone would more than subsidize the losses the CPR claims from all its passenger services. A tenth of Cominco's earnings could be used to substantially reduce freight rates to farmers.

The alternative is to allow "the national dream" to become the national albatross.

(Next week: railway workers)

Adapted from Canadian Dimension and Last Post