

sought. Adequate reasons are given why the railways should have a part in the development.

In my view it is only reasonable that the railways should have a part in the development of air transportation. In the first place they are in the transportation business; and in the operation of air lines there are problems in common with the operation of railways. For instance, both must have ticket offices; both must have facilities for soliciting express and passenger business. The legal problems of both are more or less on a par, and a legal staff trained to railway transportation matters would be valuable in air matters. I could set out many other points where the services are more or less parallel. So it seemed to me from the start that in a properly organized trans-Canada system the railways should have a part.

Then came the question of personnel. Naturally the pilots in Canada are working for aviation companies. Were we to set up a company under government auspices, and then bid for the services of the twenty or thirty most experienced pilots? We could take them only from certain places, namely from the businesses using them to-day. That led me to the belief that we should have the cooperation, as shareholders, of one or more of the companies engaged in aviation so that we could have their assistance in setting up the personnel of the service.

The leader of the opposition (Mr. Bennett) has said that the government should own and operate this service, but the experience of other countries hardly indicates that that is a wise procedure. A government directly in the transportation business is under certain handicaps which are not so serious in the case of a wholly owned transportation subsidiary of a government. For instance, going back to the Intercolonial railway, I think everyone will agree that an accident on that line cost the government a great deal more than a similar accident costs the Canadian National Railways to-day. As a minister of the government I shudder over the possibility of being responsible for the crash of a plane-load of passengers travelling on a wholly owned government air line.

In any event, after the consideration of these matters the government has decided that its agency for transportation, the Canadian National Railways, should be the means of organizing this company, just as it was used as the means for operating such shipping as the government has owned, and the means of operating other government transportation facilities.

[Mr. Howe.]

I have said it is intended to place the organization of the company in the hands of the Canadian National Railways. There has been a great deal of objection to-night to the power the minister would have in selecting shareholders and directors of the company. But surely in turning the problem over to the directors of the Canadian National Railways, the minister is turning it over to seven able business men who have a certain responsibility to the government, and who would be well qualified to handle the problem.

There is one point the bill does not make clear, but which it will make clear, namely that the Canadian National Railways will retain at least fifty-one per cent of the stock of the company. It will be noted that the government has three directors and the shareholders have six, which would mean that even if the railway disposed of the full forty-nine per cent, the government would have three directors, the railway company would have three, and such private aviation interests as may come in would have not more than three. So that at all times we would have government control.

You might say: Why is the government entitled to three directors if it is not an investor? I think the reason is that the investment of the government in air fields and facilities will be three or four times as great as the investment to be made in facilities by the aviation company. In other words, the investment in landing fields will be vastly greater than the investment in flying equipment. Further, the government has committed itself to provide weather and beam service, or radio-telegraphic service on the route. The operating costs to which the government is committed are certainly fifty per cent of the total operating costs falling upon the aviation company. Further than that, the government has undertaken that the company shall operate without loss; in the same direction they have provided that it shall operate with a very limited profit, provided the operation develops in the direction of reduced operating expenses.

Perhaps no set-up is perfect, but I do believe we have adopted the soundest possible arrangement, and in the end I believe it will be generally agreed that we have arrived at about as sound a method as could have been found of setting up the company to achieve the results we want.

The question now arises: Have we invited the private interests to participate? That question was asked. May I say we did not need to invite them. They came from every part of Canada and the United States, and put on the most persistent lobby in Ottawa

that I have ever seen. The only way we could make progress was to absolutely refuse to talk to them. We said, "Go back home. We will write our bill, and when we get it written and bring it down you will see it. If you then want any part in it we will give you the chance to discuss the matter." How could we make a deal on the one hand with perhaps a dozen clamouring aviation companies, or with one or two of them, and on the other hand bring down a bill which the government or parliament would approve? The thing was absolutely impossible. Someone had to make up his mind as to the proper set-up, pick out the responsible people to take care of the initial financing, and after that sit down and see what these services had to offer in the way of experienced personnel, trained operators, and so on; and then decide whether one, two, four or some other number of private companies should be associated in the new organization, whether each would give it strength or otherwise, and then determine the final set-up accordingly. I do not see how any other method could have been used, and I may say I have been living with this problem for several months.

There has been some worry as to the book value. I may say that we undertook at first to have two companies as shareholders, and that we split with one of them on the question of book value. One of them said that if they built up an efficient service it would be considered to have a valuable franchise, which franchise should be considered in any final settlement. We replied that the book value alone would be considered.

The books will be audited by the government every year. If the bill is read carefully it will be seen that it will be impossible to write one dollar into the books which has not been earned in one way or another. We have provided that if for reasons of defence or otherwise it is thought desirable that the government should own this enterprise, it can be taken over at book value. That is, the actual investment less such depreciation as is determined by the contract. The rates of depreciation, the purchase price of equipment, and so on will be covered by the contract. We are providing that the company can get back only the earnings that are allowed it for the period that it is operating the lines. We believe that as long as we designate the routes and provide free service on those routes, it is we who make the franchise valuable, and not the company. I believe this phase is amply safeguarded.

I think we are getting the best features of government ownership without the obligation of direct government operation, which in the

past has been troublesome. A year or two ago the United States found themselves in an impossible position in connection with the private mail contracts. Almost over night they cancelled those contracts and turned the carriage of mails over to the military services. However, the disasters of the next few months were so appalling that the government hastened to revive the private contracts. It may be that the government had not the time to bring the carriage of mails to a high state of efficiency by providing the proper personnel, but the fact remains that the people of the United States were shocked beyond measure at the number of pilots who were killed in that short period in carrying the mails.

Motion agreed to, bill read the second time and the house went into committee thereon, Mr. Sanderson in the chair.

On section 1—Short title.

Mr. HOWE: I move that the committee rise, report progress and ask leave to sit again.

Mr. LAWSON: I should like to ask one or two questions before the committee rises. I refrained from interrupting the minister when he was speaking—

The CHAIRMAN: I would direct the attention of the hon. member to the fact that this motion is not debatable.

Mr. LAWSON: It will only hold up things that much longer when we are in committee.

Progress reported.

#### SUPPLY

FURTHER SUPPLEMENTARY ESTIMATES FOR THE FISCAL YEAR ENDING MARCH 31, 1937

The house in committee of supply, Mr. Sanderson in the chair.

National Defence—Naval service—To provide for the maintenance of the ships and establishments of the naval service, including the Royal Canadian Navy, the Royal Canadian Naval Reserve and the Royal Canadian Volunteer Reserve—further amount required, \$2,201,000.

Mr. BENNETT: Will the Minister explain this item?

Hon. IAN MACKENZIE (Minister of National Defence): This vote of \$2,201,000 is required because of the purchase of two destroyers from the British admiralty. The cost of these destroyers was \$1,068,000 each; \$14,000 is needed for recruits, and \$25,000 to pay the passage of the crews to England.

Mr. BENNETT: This vote does not state that any ships are to be purchased.