

C.N.R.—Capital Structure

Yesterday's attempt of mob incited by communist leader to flout constitutional authority and to attack men lawfully at work on harbour commissioners dock Ballantyne pier effectively suppressed. Wish to publicly express the fullest measure of appreciation of all law abiding citizens for splendid cooperation extended to city police by the officers and men of the Royal Canadian Mounted Police force stationed here.

McGeer,
Mayor.

CANADIAN NATIONAL RAILWAYS

ATTITUDE OF GOVERNMENT TOWARDS CHANGES IN CAPITAL STRUCTURE

On the orders of the day:

Right Hon. R. B. BENNETT (Prime Minister): Mr. Speaker, yesterday the hon. member for West Lambton (Mr. Gray) asked a question with respect to a letter written by me to the chairman of the board of trustees of the Canadian National Railways. Such letter was mentioned but not read. It is as follows:

Dear Mr. Fullerton:

The changes proposed in the report of the Canadian National Railways are wholly at variance with the views entertained by the government.

It seems almost incredible that the auditors should suggest that advances made by the government for capital purposes to the railway company be treated in its accounts as capital stock, that is to say, as a non-interest bearing obligation, and that advances to meet deficits be written off completely. Deficits and interest must continue to appear in the accounts of the railway company if the public of Canada are to have any appreciation as to just what they have invested in their railways and what, from time to time, their advances really are. As representing the proprietors of the undertaking, we must insist that the railway company's reports shall give a true picture of the real situation and that the annual report as issued will enable anyone perusing it to understand exactly what the Dominion of Canada has invested in its railway enterprises.

To that letter an answer was received dated May, 19, 1934.

Dear Mr. Bennett:

I have your letter of the 15th instant, and note that it seems to you incredible that the auditors should suggest that advances made by the government for capital purposes to the railway company be treated in its accounts as capital stock, and that advances to meet deficits be written off completely.

You will perhaps remember that early in January I had an interview with you in reference to the capital structure of the Canadian National Railway. At that interview I [Mr. Guthrie.]

handed you a memorandum prepared by the auditors in which a recommendation was made that the government advances for deficits, aggregating \$321,000,000, and that interest accruals on government advances and loans of \$389,000,000 should be written out of the capital structure. It was also suggested in that memorandum that capital stock should be issued for government loans for government expenditures, representing approximately \$332,000,000.

When approaching the subject of the capital structure I had in mind the findings of the Duff commission, page 30. The commission there, after pointing out that the net operating income available to pay interest of the Canadian National System for the period 1923 to 1931, inclusive, averaged \$24,414,447 per annum, stated: "It is obvious that on this basis of earnings the capital liabilities would require a very drastic writing down. And while this commission is of opinion that it must be frankly recognized that a very substantial part of the money invested in the railways comprised within the Canadian National System must be regarded as lost and that its capital liabilities should be heavily written down, they do not consider that the time is opportune to deal with this important matter." The report then goes on to say that the matter should have the early attention of the board of trustees.

In order to reduce the capital structure of the Canadian National Railways to a reasonably normal basis, it would be necessary to write out all government moneys advanced for deficits and the interest on all government advances whether for deficits or for capital expenditures. It would also be necessary to place government loans for past capital expenditures upon a non-interest bearing basis. Even if this were done and the amount of the Grand Trunk capital stock and the Canadian Northern capital stock also written off, it would leave a capital figure upon which it would be impossible for the railway to pay interest for some years to come.

Of course, I recognize that the matter is entirely one for the government, and in view of your decision that the railway company's reports should give a true picture of the real situation and that the annual report as issued will enable anyone perusing it to understand exactly what the Dominion of Canada has invested in its railway enterprises, it appears to me that it would serve no useful purpose for the trustees to give any further attention to the capital structure or to the suggestions contained in the Duff report that the trustees should proceed with an attempt to adjust the capital structure.

I expect to be questioned by the committee in regard to the capital structure and the steps, if any, taken by the trustees looking to its readjustment. In such an event I will in all probability be obliged to state the attitude of the government as indicated in your letter.

I now realize that this is a closed chapter but I should not be frank if I did not state my opinion that to leave the matter as it now is