Now, as I understood the earlier part of your explanation, it was that new aircraft and so on were purchased and that entered into this picture of the breakdown in the net income. Would that not be taken care of on depreciation, and if not what proportion of it came in as new capital?

Mr. McGREGOR: The purchase of the new aircraft is a capitalized charge and depreciation begins when the aircraft goes into service. My reference to the additional expense was additional operating expense associated with training personnel to operate the aircraft.

The CHAIRMAN: Are there any further questions on page 4?

Mr. HAMILTON (*York West*): In connection with this net income of \$190,000, I see that is very close to the estimated \$200,000 which you had in your operating budget for last year. On the other hand your budget for last year showed a non-operating expense net \$640,000 which was a reduction in your budget. Can you explain the difference between the two?

Mr. McGREGOR: Yes, but I would like to go into this matter fully when we come to it if we may, Mr. Hamilton.

Mr. HAMILTON (*York West*): That will be fine, Mr. Chairman.

The CHAIRMAN: I think that question could probably be answered when we come to the next page, page 5.

Mr. HAMILTON (*York West*): Fine. May I continue then with questions having to do with page 3 and the next page. I understand, as an example, that Northwest Airlines makes about \$3 million on a \$62 million gross, or thereabouts. Now is the discrepancy between the earning of an airline company like that and Trans-Canada reflected entirely in the observation of the chairman that there is a great deal more money spent on maintenance by T.C.A.

Mr. McGREGOR: I don't think that is entirely so. In fact I don't know how Northwest maintenance costs compare with our own, but I think they may be of the same order. In the case of the Northwest fleet, a high proportion of the aircraft are fully depreciated. In our case, due to acquisition of 13 Viscounts in 1955 and the recent introduction of seven Super-Constellations a high proportion of our fleet is under active depreciation. I think that would be a major contributory cause, though not the only one. Our fuel costs run about 30 per cent higher than those of American operators and fuel costs, of course, represent a major item of expense to airline operation.

Mr. HAMILTON (*York West*): The fuel costs are higher but how do your wage rates compare?

Mr. McGREGOR: They are somewhat lower.

Mr. HAMILTON (*York West*): Would they compensate for the increase in fuel costs? Would your wage rates differential bring expenses about even?

Mr. McGREGOR: No.

Mr. HAMILTON (*York West*): How far would it be from being even?

Mr. McGREGOR: I should think that the differential in wages would not account for more than one third of the difference in fuel costs.

Mr. HAMILTON (*York West*): In previous years you have not been up against this depreciation problem—you had your DC-3's and North Stars written off, but nevertheless you did not make that much money.

Mr. McGREGOR: That is correct.

Mr. HAMILTON (*York West*): Is there any reason for that in addition to the cost of fuel?

Mr. McGREGOR: We probably spend more money per ton mile on the services associated with the operation of airports. It is not a large item but our landing fees tend to be higher. It is a very difficult comparison to make because