

this section will deserve special study and attention in our transportation committee. It deals with the fixing of the freight rates, and it causes me concern for a number of reasons. The rates can be established by taking the variable costs and allowing 150 per cent markup over the variable costs. I am told on very good authority that 70 per cent of the total costs of the railways is accounted for under variable costs.

If we took this on a figure of cost of \$100 and added 150 per cent of the 70 to that, we would be adding 105 per cent. In other words, on the cost of \$100 the railways are allowed—and admittedly this is supposed to be a maximum—a markup of 105 per cent. This is a fairly generous markup, and I feel that most people in Canada could successfully operate a business with a markup of 105 per cent.

The second aspect that causes me a great deal of concern is that the 150 per cent is based on a carloading of 30,000 pounds. Here again, if I may refer to Dr. Borts' submission—and I believe the Manitoba submission supported Dr. Borts in this—he pointed out that, in cases of carloading beyond 30,000 pounds, the markup is really more than 150 per cent. In cases of carloadings of 100,000 pounds the markup will be in the vicinity of 400 per cent. This is due to the economy of moving a larger carloading plus the complexity of the variable cost as presently calculated by the railroads.

If I may illustrate this from a Maritime viewpoint, the average shipment of potatoes from the Maritimes is 55,000 pounds.

Hon. Mr. Connolly (Ottawa West): Is that a carload?

Hon. Mr. Phillips: Yes. Applying Dr. Borts' formula to this, you will get a markup of approximately 225 per cent.

Now, admittedly potatoes are moved presently under an agreed charge with the railway, but this does not mean that later on the railways will not ask to have this agreed charge renegotiated. I am very worried and concerned about the increased costs of moving Maritime potatoes to central Canada.

Hon. Mr. Connolly (Ottawa West): I wonder whether the honourable senator is right when he speaks that way? I understood that that formula applied only in cases where there was a captive shipper and not where there was a competitive factor involved. I may be mistaken about this, but that is my own reading of it.

Hon. Mr. Phillips: I am going on, Senator Connolly, to point out that the potato grower is a classic example of a captive shipper. He must move most of his machinery, manufactured in the central United States or central Canada, into the Maritimes. In addition, a great deal of the chemical fertilizers and various insecticides he will use will be brought in by railway. Then, after it is harvested, the crop will have to be moved out by rail. So this leaves the potato grower in the position of being a very captive shipper.

Hon. Mr. Connolly (Ottawa West): I hope the honourable gentleman will not think I am rising to interrupt his trend of thought, but my understanding of the definition of a captive shipper in this bill is that that shipper is restricted to one form of transportation company, and perhaps to transportation that can be provided by one company only. Now, in the case mentioned by the honourable senator, where he talks about the movements of the product potato, I think there are various methods of transportation that could be employed here, and are in fact. There is rail, water, and road transport. I do not know whether they fly any. Perhaps on occasion they do. However, there are various companies involved. So it seems to me that the principle embodied in the conclusion of the MacPherson Report with reference to competition is the feature that would apply to provide the remedy that the honourable senator suggests.

Please do not misunderstand me. I do not want to throw the honourable senator off on the argument he makes. This seems to me to be the fact of the case.

Hon. Mr. Phillips: I would like very much to accept the explanation of the honourable Senator Connolly but I cannot do so. I would point out to him that in the case of Prince Edward Island there is only one railway line, the Canadian National. While we do ship a number of potatoes by water to southern United States, the agreed charge with the railway specifies that any potatoes moving into central Canada must be shipped by rail or the agreed charge is no longer effective. So you really have no alternative company to move these potatoes into central Canada.

Now, one other aspect of section 336 that I would like to deal with concerns the costs of capital as prescribed under the act. It states that the commission shall compute the costs of capital in all cases by using the costs of capital approved by the commission as proper for the Canadian Pacific Railway Company.