

Supply—Transport

Hearings began on this subject on January 11, 1949, and an interim judgment of the board was issued on September 20, 1949. In its judgment the board stated, in connection with the review of the 21 per cent case, that it found that the increase should have been only 15 per cent, and established a new formula to gauge the financial requirements of the railways. The board applied its new findings to the 20 per cent application and granted an interim increase of 8 per cent in rates in effect at the time the application was received by the board. In its decision the board gave effect to a number of claims made by the provinces, including, one, the allocation of fixed charges as between rail and non-rail enterprises; two, rejected the user basis of depreciation suggested as opposed to the straight-line method; three, adjusted income tax by giving consideration to overstatement of depreciation and deferred maintenance.

The board also took into consideration the fact that by order in council, P.C. 6033 dated December 29, 1948, the royal commission on transportation had been appointed and that several matters then in dispute before the board were within the terms of reference of the royal commission. This might involve recommendations for revision of the capital structure of the Canadian National Railways, from which a rate base valuation could be made. Economies under the Canadian National-Canadian Pacific Act and a uniform accounting procedure for railway companies were also matters which had been referred to the royal commission on transportation, some of them on the recommendation of the provinces.

These were matters which the board thought would involve the treatment of deferred maintenance and other income. The principle of horizontal increases, which has been discussed in this house before, and which unquestionably will be brought up again, was under consideration in the board's general freight rates study. This, together with the fact that the changes in sources of revenue had not had time to make their effect felt, were reasons given by the board for granting the interim increase of 8 per cent which I mentioned a moment ago.

Then there followed an application by the Canadian Pacific Railway Company to the Supreme Court of Canada for leave to appeal the decision of the 8 per cent interim increase in freight rates. The Supreme Court of Canada, having listened to argument, gave judgment in favour of the contention of that railway. Immediately following that decision the board decided to reopen the case for further hearing, and the case was reopened

[Mr. Chevrier.]

before the board on February 2, 1950, at which time further evidence was admitted in respect to the comparison of results for the year 1949. Final decision was rendered on March 1, 1950, authorizing an increase of 16 per cent in lieu of the interim increase of 8 per cent. In this decision the board applied the same formula as in the review of the 21 per cent judgment, and accepted two further contentions of the provinces, namely, (1) a reduction in the income tax of the C.P.R. for the year 1949, and (2) allowance for devaluation of the pound as affecting the overseas financial responsibility of the C.P.R.

While the board in the 8 per cent interim decision had questioned the lack of evidence in support of increased labour costs, additional evidence was presented and accepted by the board at the hearing following the appeal to the Supreme Court of Canada. This evidence indicated that the effect of the 17 cents per hour wage award coming after the original 21 per cent decision increased the C.P.R. 1948 operating costs by \$29 million, or nearly equivalent to the \$30,345,000 deficiency which the 21 per cent award was intended to cover.

Following this decision the Railway Association of Canada made another application to the board of transport commissioners for review or amendment of its decision in the 16 per cent case, arguing that the 16 per cent should have been 20 per cent. The grounds were, first, that the board had erred in not authorizing such a percentage increase as was required to make good the total revenue deficiency of \$29,971,700, and, second, that the board erred in authorizing an increase of only 16 per cent, in that such a percentage increase would have provided an increase in revenue of only \$22,300,000.

On May 11 the board granted the application of the Railway Association of Canada and increased the 16 per cent to 20 per cent. This latest and final advance of 20 per cent in freight rates authorized by the board was again to be applied only, as I stated with reference to the 21 per cent case, to a certain proportion of the traffic. As in the 21 per cent case, no authority was given to the railways to increase statutory grain rates and international as well as import and export rates. The total freight revenue of our two main railways amounted to \$635 million in 1949 but only some \$425 million will be affected by the latest 20 per cent increase.

In conclusion, let me say that the 20 per cent decision handed down recently was the final culmination of a series of three applications which was arrived at only after hearings extending over a long period of time, in some