

Then in the transportation committee he said the following:

If we should get this bill through, then all the hocus pocus, if I may use the term, in respect of bookkeeping entries, will be wound up, and from then on the Canadian National System will have a chance to be judged on its record, and on a basis which will be appropriate and reasonable in respect to what might be expected of it.

The *Montreal Star* attributed the following quotation to the late Mr. Gordon:

I would like to record, even now, my complete confidence that our proposal deals with the last possibility of any further revision of this nature and that it is aimed at a final clearance of the effects of what has been called the legacy of the past. I am confident that, given this final clearance, the Canadian National will be able to demonstrate that it is an efficient and well run organization.

There are many similarities between those glowing words, those we heard at the presentation of this bill and the remarks which have been made by officers of the CNR. If there is any apprehension or suspicion that this may recur, it is certainly in the minds of hon. members on this side of the House.

The 1952 revision act went beyond the debt aspect of CN's financial structure by providing the railway with a new source of funds. It provided that CN would increase its equity annually to the tune of 3 per cent of the gross annual revenues of the national system. It also provided for an interest waiver on some \$100 million for a period of ten years.

As for the \$736 million equity fund provided for in the act, in no single year has the full 4 per cent dividend been paid to the government. As a matter of fact, in only three years during that period did the government receive a dividend, and the highest amount which was received was something in the order of 3.1 per cent. It should also be noted that as a result of the 1952 recapitalization act CN had the advantage of enjoying the use of cost-free capital which amounted to \$1.504 billion by 1976.

Having said all that, it is very difficult for us to draw any other conclusion than that the result of the first and second recapitalization acts has been to unleash to CN the opportunity to go on a capital spending binge of enormous proportions. It is quite interesting to note that CN's capital expenditure policies have been extravagant, to say the least. From 1952 to the end of 1976 CN spent \$4.8 billion, equal to 80 per cent of its total property investment at the end of 1976, on improvements, additions and replacements of its properties. About \$2.8 billion of this was provided by depreciation and salvage, and \$768 million came from government purchases of preferred stock, leaving over \$1 billion to be financed by borrowing.

Of the increase by this amount in CN's long-term debt we are now proposing here under this bill to cancel some \$808 million, or roughly two-thirds. This can be interpreted only as an admission that the capital expenditures represented by that amount are unable to pay their way and were therefore not justifiable economically. What is more important is that this has very serious implications for every privately owned firm which competes with the transportation undertaking or any other undertaking of CNR, because CN is once again able to enjoy the benefits of spending money without bearing the burden of its cost. One more time CN's competitors are

### *Railway Act*

finding the terms of competition radically altered, to their disadvantage, as a result of CN's having expanded and having improved its operations through capital spending on which no return need ever be earned.

So one can only conclude that, given this record of performance and given the realities of what we are seeing, CN has been grossly mismanaged. When I say that I do not cast a reflection upon the current management. I think the current management is very eagerly and desperately trying to turn things around; but the management and the record of performance of CN from a financial management point of view over the years is less than satisfactory. I must say that CN is not unlike many other Crown corporations which have been subjected to parliamentary scrutiny, when parliament has been given the chance to scrutinize.

It should be noted, with respect to debt-equity, that in 1952 when the recapitalization bill was passed CN had a debt-equity ratio of about 32 per cent or 33 per cent, compared with CP, which had a debt-equity ratio in the same vicinity. One must seriously question how CP could show a profit every year, pay a dividend and take advantage of its rightful depreciation while CN went merrily along accumulating more and more debt. I say that even though I understand that CP pays rather extraordinary salaries to its senior officials, which is a subject of some controversy and a matter of highly guarded secrecy. I am not sure whether CP pays its chief executive officer, Mr. Sinclair, for his services by the pound or by the amount of brains he has, but he is probably getting more than he is worth regardless of what formula is used. I say that particularly in view of some of his preposterous reasons for failing to disclose the salaries of CP officials to the securities exchange commission. It seems to me only logical that we should propose the same legislation which is in existence in the United States. Under U.S. law all companies which do business or arrange financing must reveal their executives' or directors' salaries when those salaries are above \$40,000.

I want to reiterate that we are concerned that there are not sufficient safeguards and guidelines in this legislation to prevent a repeat performance of that which has gone before us. Since in no one year did CN meet its obligation to pay a 4 per cent dividend to the government on its non-cumulative preferred shares, what is so different about this particular legislation under which CN is obliged to provide the payment of 20 per cent of its net earnings to the government under clause 10? Unless there are clearly defined objectives and responsibilities for management to meet clearly spelled out in the legislation, unless the consequences of failing to carry out those responsibilities are clearly defined, unpleasant as they might be, and unless appropriate safeguards are inserted for meeting that purpose and ensuring that there is absolute accountability to this House, I submit that we can conclude that there is nothing to prevent a repetition of CN's past performance.

● (2032)

Clearly this legislation must have some teeth to guarantee that parliament will not be called upon to continue the pattern