

Canada. Parl. H. of C. Sessional
Comm. on Railways, Air
Lines & Shipping...
Minutes of
proceedings & evidence.

J
103
H7
1960
R3A1

DATE

NAME - NOM

Canada. Parliament. H of C.
Sessional Comm. on Railways, Air
Lines and Shipping Owned and
Controlled by the Government, 1960.

✓

J

103

H7

1960

R3

A1

HOUSE OF COMMONS

Third Session—Twenty-fourth Parliament

1960

SESSIONAL COMMITTEE

ON

**RAILWAYS, AIR LINES
AND SHIPPING**

Owned and Controlled by the Government

Chairman: HONOURABLE W. EARL ROWE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

MONDAY, MARCH 28, 1960

TUESDAY, MARCH 29, 1960

Canadian National Railways Annual Report (1959).
Capital and Operating Budget (1960) of C.N.R.

WITNESSES:

Mr. Donald Gordon, C.M.G., and Mr. S. F. Dingle, of the Canadian
National Railways.

SESSIONAL COMMITTEE

SESSIONAL COMMITTEE

ON

RAILWAYS, AIR LINES AND SHIPPING

owned and controlled by the Government

Chairman: Hon. W. Earl Rowe

Vice-Chairman: C. E. Campeau

and Messrs.

- | | | |
|---|--------------------------------|-------------------------------|
| Badanai | Creaghan | McPhillips |
| ¹ Benidickson | Drysdale | McWilliam |
| Brassard (<i>Lapointe</i>) | Fisher | Mitchell |
| Broome | Fraser | Monteith (<i>Verdun</i>) |
| ² Browne (<i>Vancouver-Kingsway</i>) | Grills | Pascoe |
| Carter | Horner (<i>Jasper-Edson</i>) | Robinson |
| Chevrier | ³ Howe | Smith (<i>Simcoe North</i>) |
| Chown | Kennedy | |
| | Martini | |

Antoine Chasse,
Clerk of the Committee.

¹Replaced Mr. Granger on 28th March, 1960.

²Replaced Mr. Bourbonnais on 28th March, 1960.

³Replaced Mr. Smallwood on 29th March, 1960.

WITNESSES

Mr. Donald Gordon, C.M.G., and Mr. S. F. Dingle of the Canadian National Railways.

SESSONAL COMMITTEE
MONDAY March 28 1960
Ordered.—That the names of Messrs. Brown (Cape Breton-Kingsway) and
Henderson be substituted for those of Messrs. Bourbonnais and Granger
respectively on the Sessional Committee on Railways, Air Lines and Shipping.

ORDERS OF REFERENCE

HOUSE OF COMMONS,
WEDNESDAY, March 23, 1960.

Resolved,—That a Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government, be appointed to consider the accounts, estimates and bills relating to the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation to the voting of public moneys; and that the said Committee be empowered to send for persons, papers and records, and to report from time to time; and that, notwithstanding Standing Order 67 in relation to the limitation of the number of members, the said Committee shall consist of Messrs. Badanai, Bourbonnais, Brassard (*Lapointe*), Broome, Campeau, Carter, Chevrier, Chown, Creaghan, Drysdale, Fisher, Fraser, Granger, Grills, Horner (*Jasper-Edson*), Kennedy, Martini, McPhillips, McWilliam, Mitchell, Monteith (*Verdun*), Pascoe, Robinson, Rowe, Smallwood, Smith (*Simcoe North*).

THURSDAY, March 24, 1960.

Ordered,—That the Annual Reports for 1959 of the Canadian National Railways, Canadian National (West Indies) Steamships Limited, Canadian National Railways Securities Trust, Auditor's Reports to Parliament in respect of the Canadian National Railways and of the Canadian National (West Indies) Steamships Limited, the budget for 1960 of the Canadian National Railways, the Annual Report of Trans-Canada Air Lines for 1959, the Auditor's Report to Parliament on Trans-Canada Air Lines for 1959, tabled this day, and the budget for 1960 of Trans-Canada Air Lines, tabled on March 1, 1960, be referred to the Sessional Committee on Railways, Air Lines and Shipping; and that Items numbered 420—Prince Edward Island Car Ferry and Terminals Deficit 1960, 421—Newfoundland Ferry and Terminals Deficit 1960, and 429—Maritime Freight Rates Act, as listed in the Main Estimates of 1960-61, be withdrawn from the Committee of Supply and referred to the said Committee, saving always the powers of the Committee of Supply in relation to the voting of public monies.

MONDAY, March 28, 1960.

Ordered,—That the quorum of the Sessional Committee on Railways, Air Lines and Shipping be set at 10 members; that the said Committee be empowered to sit while the House is sitting; and that the said Committee be authorized to print, from day to day, 800 copies in English and 250 in French of its Minutes of Proceedings and Evidence, and that Standing Order 66 be suspended in relation thereto.

MONDAY, March 28, 1960.

Ordered,—That the names of Messrs. Browne (*Vancouver-Kingsway*) and Benidickson be substituted for those of Messrs. Bourbonnais and Granger respectively on the Sessional Committee on Railways, Air Lines and Shipping.

House of Commons
TUESDAY, March 29, 1960

TUESDAY, March 29, 1960.

Ordered,—That the name of Mr. Howe be substituted for that of Mr. Smallwood on the Sessional Committee on Railways, Air Lines and Shipping.
Attest.

L.-J. Raymond,
Clerk of the House.

Ordered—That the names of Messrs. ...
TUESDAY, March 29, 1960

Ordered—That the names of Messrs. ...
TUESDAY, March 29, 1960

Ordered—That the names of Messrs. ...
TUESDAY, March 29, 1960

REPORT TO THE HOUSE

MONDAY, March 28, 1960

The Sessional Committee on Railways, Air Lines and Shipping, owned and controlled by the Government, has the honour to present its

FIRST REPORT

Your Committee recommends:

1. That its quorum be set at 10 members.
2. That it be empowered to sit while the House is sitting.
3. That it be authorized to print, from day to day, 800 copies in English and 250 in French of its minutes of proceedings and evidence and that Standing Order 66 be suspended in relation thereto.

Respectfully submitted,

W. EARL ROWE,
Chairman.

Note: The said report was concurred in this day.

MINUTES OF PROCEEDINGS

The Senate, Room 356-S.

MONDAY, March 28, 1960.

(1)

The Sessional Committee on Railways, Air Lines and Shipping, owned and controlled by the Government, met at 11:50 o'clock am.

Members present: Messrs. Badanai, Carter, Chown, Creaghan, Horner (*Jasper Edson*), Kennedy, McPhillips, McWilliam, Mitchell, Monteith (*Verdun*), Pascoe, Robinson, Rowe, Smith (*Simcoe North*).

In attendance: Mr. Browne, M.P. (*Vancouver-Kingsway*).

The Clerk of the Committee attended the election of a Chairman.

Mr. Kennedy moved, seconded by Mr. Smith (*Simcoe North*), that the Honourable Earl Rowe, M.P. be elected Chairman.

On motion of Mr. Robinson, seconded by Mr. Monteith (*Verdun*), nominations closed.

An the question having been put on the proposed motion of Mr. Kennedy, it was unanimously adopted.

Honourable Earl Rowe took the Chair.

The Chairman invited nominations for Vice-Chairman.

Whereupon Mr. McPhillips moved, seconded by Mr. Chown, that Mr. C. E. Campeau, M. P., be elected Vice-Chairman.

On motion of Mr. Chown, seconded by Mr. Smith (*Simcoe North*), nominations closed.

And the question having been put on the proposed motion of Mr. McPhillips, it was unanimously adopted.

The Chairman referred to the Orders of Reference, but the reading of them was dispensed with.

On motion of Mr. Smith (*Simcoe North*), seconded by Mr. Chown,

Resolved,—That the Committee seek authority to print, from day to day, 800 copies in English and 250 copies in French of the Minutes of Proceedings and Evidence.

On motion of Mr. McPhillips, seconded by Mr. Pascoe,

Resolved,—That the Committee recommend that its quorum be set at 10 members.

On motion of Mr. Mitchell, seconded by Mr. McPhillips,

Resolved,—That the Committee seek leave to sit while the House is sitting.

The Committee considered the time of future sittings.

On motion of Mr. Kennedy, seconded by Mr. McWilliam, the following schedule was adopted:

| | |
|-----------------------|--|
| Tuesday, March 29th | 9.30 o'clock in the morning. 3.30 o'clock in the afternoon. 8.00 o'clock in the evening. |
| Wednesday, March 30th | 9.00 o'clock in the morning. 3.30 o'clock in the afternoon. |
| Thursday, March 31st | 9.00 o'clock in the morning. 3.30 o'clock in the afternoon. |

On motion of Mr. Creaghan, seconded by Mr. Pascoe,

Resolved,—That the morning meeting on Thursday, March 31st, be adjourned in time to allow the members of the Committee to attend the flight as guests of the Trans-Canada Air Lines.

The Chairman read a letter addressed to him from Mr. Donald Gordon, President of the Canadian National Railways, dated May 21st, 1959, relating to the procedure to be followed during consideration of the C.N.R. matters before the Committee. After informal discussion thereon it was agreed that a copy of the letter from Mr. Gordon be sent to each member of the Committee and same now appears as *Appendix "A"* to today's minutes of proceedings.

At 12.20 o'clock p.m. the Committee adjourned to meet again at 9.30 o'clock a.m. Tuesday, March 29th.

APPENDIX "A"

CANADIAN NATIONAL RAILWAYS

Montreal, May 21st, 1959.

Office of
Donald Gordon
Chairman and President

Dear Sir:

In response to the invitation of the Committee, I submit herewith a few suggestions which might be helpful in improving the procedure and effectiveness of the Committee's consideration of matters pertaining to the Canadian National Railways.

At the outset may I say, merely for the purpose of emphasizing the record, that the views I expressed during the Sessions arose out of a question by a Member of the Committee and similarly indicated by the Committee generally. In light of this, I feel confident that my remarks at that time and the suggestions which are contained in this letter will not be interpreted as a desire on my part to restrict in any way the work of the Committee nor to interfere with the right of questioning by any of its Members. I did sense, however, the feeling amongst Members of the Committee that if references to minute detail could be avoided as much as possible, then more attention could be directed towards some of the broader problems and policies of the Canadian National System. If, in the opinion of the Committee, such

a broader approach could be facilitated by a presentation by Management of more information in the form of charts and analytical material then we would be very pleased to so provide. It is my endeavour to be as helpful as possible in supplying the type of information which will enable the Committee to make an informed judgment of our stewardship.

To this end it might be considered good practice to divide the sitting of the Sessional Committee into two parts—the first to recognize the normal pattern of any corporation in dealing with its Annual Report and the second to recognize the desirability of an examination by the Committee into broad questions of policy affecting the financial results, plans for development of new needs or for the abandonment of outmoded and unprofitable activities.

To meet the first requirement the Committee is receiving the Annual Report might find it helpful to require of me a commentary calling attention to some of the highlights of the year's operations, together with suitable observations on anything affecting the transportation industry which may be of significance to the interests of the C.N.R. This generalized statement, I feel sure, would provide an excellent background for the more detailed presentation to meet the second requirement. At this stage of the proceedings a statement would be given dealing with the Budget for the forthcoming year, both Capital and Operating. This could be supplemented by an interesting and informative explanation of Capital Investment Planning, analyses of the financial position, both past and forecast, traffic analyses and estimates, yardsticks of performance and so on. As in the past, I would be supported by other senior Railway officers to assist in such presentation as well as being able to deal, on the spot, with the kind of questions which might naturally arise out of consideration of the broader issues and problems with which we are confronted. I would be hopeful that this procedure would facilitate a better understanding by the Committee Members of the more significant aspects of our operations. If matters of detail were to arise incidentally in these discussions, they could, perhaps, be more appropriately answered by subsequent written replies submitted during, or, if necessary, after the proceedings of the Committee. Such a procedure would be most helpful to me in planning and preparing to meet the Committee.

I am grateful to the Committee for the courtesy in inviting me to express my views on this subject and I hope this letter will assist the Members in their consideration of it.

Respectfully submitted.

Your sincerely,

(Signed) D. GORDON.

Honourable W. Earl Rowe, M.P.,
Chairman,
Session Committee on Railways, Air Lines and Shipping,
House of Commons,
Ottawa, Ontario.

TUESDAY, March 29, 1960.

(2)

MORNING SITTING

The Committee met at 9:30 o'clock a.m. The Chairman, the Honourable W. Earl Rowe, presided.

Members present: Messrs. Badanai, Benidickson, Broome, Browne (*Vancouver-Kingsway*), Carter, Chevrier, Chown, Creaghan, Drysdale, Fisher, Fraser, Grills, Horner (*Jasper-Edson*), Kennedy, Martini, McPhillips, McWilliam, Mitchell, Monteith (*Verdun*), Pascoe, Robinson, Rowe, Smith (*Simcoe North*).

In attendance: The Honourable George Hees, Minister of Transport and Mr. F. T. Collins, Special Assistant and Secretary. *From the Canadian National Railways:* Mr. Donald Gordon, Chairman, Board of Directors and President; Mr. S. F. Dingle, Vice-President (Operations); Mr. J. L. Toole, Vice-President (Accounting and Finance); Mr. R. T. Vaughan, Assistant to President; Mr. J. D. Wahn, General Economist; Mr. K. E. Hunt, Chief of Budget and Engineering Economics. Mr. J. A. de Lalanne, C.A., Auditor. *From the Brotherhood of Locomotive Engineers:* Messrs. O. J. Travers, John Marshall, W. J. Wright, V. R. Speare, D. H. Germain.

The Chairman outlined the procedure by which it had been agreed, the Annual Report of the Canadian National Railways for the year ending December 31st, 1959, would be presented to the Committee.

Mr. Benidickson proposed that beforehand the Committee proceed with hearing delegates of the Brotherhood of Locomotive Engineers, who were in attendance. He said it was his understanding that similar requests for a hearing had been presented to the Committee by the Mayor and Chamber of Commerce of Sioux Lookout and others.

The Chairman read the telegram he had received from the Mayor and the President of the Chamber of Commerce of Sioux Lookout and his reply thereto.

After extended debate the Chairman ruled that Mr. Benidickson's proposition could not be entertained; to adopt such a procedure would be breaking tradition with the Committee's practice and be contrary to the terms of the Order of Reference.

Mr. Benidickson appealed from the decision.

And the question having been put as to whether or not the Chairman's ruling should be sustained, it was resolved in the affirmative on the following recorded division: Yeas, Messrs. Broome, Browne (*Vancouver-Kingsway*), Chown, Creaghan, Drysdale, Fisher, Fraser, Horner (*Jasper-Edson*), Kennedy, Martini, McPhillips, Monteith (*Verdun*), Pascoe, Robinson, Smith (*Simcoe North*),—15; Nays, Messrs. Badanai, Benidickson, Carter, Chevrier, Grills, McWilliam, Mitchell—7.

The Committee then proceeded to the consideration of the Annual Report of the Canadian National Railways for the year ending December 31st, 1959.

Mr. Donald Gordon was called.

The witness read a commentary on the Report before the Committee.

Following this, graphs were projected on a screen and commented upon by Mr. Gordon, assisted by Messrs. S. F. Dingle, J. D. Wahn and K. E. Hunt.

Charts 1 to 17 inclusive, 17A, 17B, 18, 19 and 20 were shown and appear with comments on each one in the printed report of the evidence.

At 12:35 o'clock p.m. the Committee took recess.

(3)

AFTERNOON SITTING

The Committee resumed at 3:30 o'clock p.m. The Chairman, the Honourable W. Eart Rowe, presided.

Members present: Messrs. Badanai, Benidickson, Broome, Browne (*Vancouver-Kingsway*), Carter, Chevrier, Chown, Drysdale, Fisher, Fraser, Grills, Howe, Horner (*Jasper-Edson*), Kennedy, Martini, McPhillips, Mitchell, Monteith (*Verdun*), Pascoe, Robinson, Rowe, Smith (*Simcoe North*).

In attendance: The same officials and persons as are listed in attendance at the morning sitting.

Before proceeding with the matters under consideration the Committee discussed procedure.

The Committee resumed the consideration of the Annual Report of the Canadian National Railways.

Mr. Gordon was recalled. The witness was assisted by Messrs. Dingle and Hunt.

Charts 22, 23, 24, 25, 27-1, 27-3, 28-1, 28-2, 28-4, and 29 to 33 inclusive were projected on a screen and commented upon by Messrs. Gordon, Dingle and Hunt.

At 6:00 o'clock p.m. the Committee took recess.

(4)

EVENING SITTING

The Committee resumed at 8:00 o'clock p.m. The Chairman, the Honourable Earl Rowe, presided.

Members present: Messrs. Badanai, Benidickson, Broome, Browne (*Vancouver-Kingsway*), Carter, Chevrier, Chown, Creaghan, Drysdale, Fisher, Fraser, Howe, Horner (*Jasper-Edson*), Martini, McPhillips, Monteith (*Verdun*), Pascoe, Robinson, Rowe, Smith (*Simcoe North*).

In attendance: The same officials and persons as are listed in attendance at the morning and afternoon sittings.

The Committee again resumed the consideration of the Annual Report of the Canadian National Railways, with Messrs. Gordon, Dingle and Wahn under questioning.

And consideration of the Annual Report still continuing, it was adjourned to the next meeting.

At 10 o'clock p.m., on motion of Mr. Chown, the Committee adjourned to meet again at 9:00 o'clock a.m. Wednesday, March 30th, 1960.

Antoine Chasse,
Clerk of the Committee.

1960. Seasonal Committee

EVIDENCE

TUESDAY, March 29, 1960,
9:30 a.m.

The CHAIRMAN: Gentlemen, we will proceed now. We are a few minutes late, but in courtesy to the minister I thought we should wait until he arrived.

Hon. George H. HEES (*Minister of Transport*): May I, Mr. Chairman, apologize.

The CHAIRMAN: I thought that the first order of business would be the reception of the annual report of the Canadian National Railways for 1959. In this connection naturally we will hear from the president, Mr. Donald Gordon.

As I mentioned to the committee yesterday morning I think the procedure might be expedited this year by having the president merely give the highlights of the report. I know you have all read it very carefully all the way through. This year, as Mr. Gordon gives the highlights of the report, as you can see by the screen, the plan is to show slides of graphs indicating the general procedure and what is dealt with mostly in the annual report. I believe this was decided yesterday in the committee, subject to agreement by the committee of the whole here today. We had a small attendance although we did have a quorum. Although our quorum has been changed to ten that does not mean we want the rest of you to remain away during the meetings of the committee.

I think the showing of the graphs on the screen will expedite the procedure of the committee. It is not in any way the purpose to curtail questions or rights of any individual member. It was considered, however, that it might be advisable to allow the president to give a synopsis of the highlights of his report and then we will see the graphs on the screen.

If you are in agreement I thought that, as we proceed, you might make notes of any question you wish to ask in respect of the different items. It is not suggested that you hand them in in writing, but rather that you write them down so that you can ask them in an orderly way following the showing of the graphs. If that is satisfactory we might proceed.

Mr. BENIDICKSON: Mr. Chairman, before we call upon the president I would like to speak on a point of order. As the chairman is well aware, in the last few days we have had several conversations in respect of the desire on the part of representatives from some C.N.R. communities to be heard. These are representatives from communities which are facing very heavy job displacements as a result of certain new procedures and automation and the like on the road.

I know that the community of Sioux Lookout, which I represent, wired the Minister of Transport on Friday indicating a desire to have the mayor and representatives of the Chamber of Commerce come to this committee to explain the plight of that community as a result of recent notices of changes in policy that have been given by the C.N.R.

The other day in the House of Commons it was indicated that in some of the communities in Northern Ontario, where these communities have grown up entirely because of employment on the C.N.R. and past needs of the C.N.R., the effect of the proposed job displacement is relatively worse than in many other more prominent localities we have heard about, such as Elliot Lake.

The point I really want to raise is that I think the minister should indicate to the committee the communications he has had from these people and the reply he was kind enough to tell me he had given them yesterday.

I know the chairman was relying quite conscientiously upon a more recent precedent of 1956 when this committee turned down a request to hear witnesses other than those from the crown companies. Having that in mind—and I think having that in mind only—the Chairman wired the mayor of Sioux Lookout indicating that hearing a representation from them would be beyond the terms of reference of this committee. Overnight I think the clerk and doubtless the Chairman also have become aware of the events of 1949 when something very similar in relation to the T.C.A. occurred when it was proposed by the T.C.A. to move a very substantial number of their employees from Winnipeg to Montreal. At that time a delegation from Manitoba headed by the premier and supported by businessmen and representatives of the employees' unions and so on were received by this committee, and in fact we discussed their problem for several days.

Although I have not been in communication with his constituents, the member for Melville tells me he has been informed a delegation from Melville is to arrive here today. This is a delegation of employees of the C.N.R. who face a situation similar to that I have described to the Minister of Transport in my own riding at Sioux Lookout. I do not know whether or not this delegation is here. I do not know, too, that we have here representatives of some of the brotherhoods. We have Mr. Travers and Mr. Wright from Montreal, and I believe Mr. Marshall and Mr. Spears from the western region in Winnipeg, and they, of course, can present to the committee the picture as it is seen by the employees. But as I say, the mayor and other community people in Sioux Lookout have indicated that their story is even different than that of the employees.

I believe that the Canadian National Railways has heard from the premier of Ontario. Ontario has a big investment in debentures in Sioux Lookout and has supplied roads, and help on schools and so on, that might not otherwise have been invested in if this intention had been known earlier. Some road construction is under way right now, although this probably will be discontinued if the town of Sioux Lookout is to be so radically downgraded.

These are all problems I think the committee can concern itself with; with those, in other words, who make the request; and the chairman received a wire for a hearing by these affected people. He did give a reply to some of them. Sioux Lookout, in particular, learned from the telegram yesterday from the chairman that it was beyond the reference of the committee to hear them. So, of course, they did not take the train last night; but they were talking to me on the phone and were very keen to come here.

This is a problem which I think will have to come before the committee. I am not concerned about when it comes forward. We could perhaps follow our usual procedure and go over the annual report, but I think the chairman and the committee should consider these requests, particularly in the light of the precedent of which I do not think the chairman was aware yesterday when he sent his telegram.

The CHAIRMAN: Yes, I was. I received that wire from the mayor of Sioux Lookout, who was speaking also on behalf of Mr. Fuller, head of the Chamber of Commerce in that district. I am quite aware of Mr. Benidickson's interest in his own district, and also other members in their districts. I wired the mayor last night in reply to his wire that there was no provision under the terms of reference for such a representation. I think the easiest way to deal with the

issue is to read the terms of reference, and I think you, as members of the committee, will appreciate why I sent that wire, as I did. The terms of reference are:

Resolved that a sessional committee on railways, air lines and shipping owned and controlled by the government, be appointed to consider the accounts, estimates and bills relating to the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines, saving always the powers of the committee of supply in relation to the voting of public moneys; and that the said committee be empowered to send for persons, papers and records, and to report from time to time; and that, notwithstanding standing order 67 in relation to the limitation of the number of members, the said committee shall consist of Messrs. Badanai, Bourbonnais, Brassard—
and others listed.

Now, that is a copy of the terms of reference. I think it is quite obvious to all it would not be consistent with sending a wire last night to the mayor of Sioux Lookout if we received representations this morning. Unless you are prepared to sit here for months instead of days, I do not know how you can change the terms of reference and send for witnesses we have no right to hear. Under the terms of reference of the committee we are not empowered to accept them as they wish to come. However, if a member is interested enough that he wants to send for those who wish to come, and the committee supported his suggestion, then one member has just as much right as another. We can see several around here who may not have as big a problem as Mr. Benidickson and other persons here, but I can see several who could simply send for their interested parties to come before the committee, if the committee had terms of reference providing for such an investigation or series of conferences.

The wire that I received and which was sent to me was:

Advise you have been named railways air lines committee of house we urgently request hearing before your committee Stop Advise if we can be heard.

And it is signed by Mayor A. Hannah and W. W. Fuller, president, Sioux Lookout chamber of commerce.

So I wired back Mayor Hannah as follows:

Received wire from you and W. W. Fuller regarding sessional committee. Regret terms of reference provide only for examination of accounts, estimates, bills and auditor general's reports relating to the Canadian National Railways, Trans-Canada Airlines and Canadian West Indies Steamships Limited 1959. Accordingly there is no provision for representation re same by other than members of the committee.

And I think I asked for a copy to be sent to you, Mr. Benidickson, last night.

Mr. BENIDICKSON: I have not received it, but you phoned it to me. I have not received a copy yet this morning. I have been to the post office.

The CHAIRMAN: I told my secretary to put one in your mail. It is there, likely.

Now, there is where it stands, so far as my response as your chairman to the wire is concerned. I do not see how we can open it up and change our terms of reference to allow this committee to become a sounding board for the many throughout this country who would like to be heard.

I think there are quite a few people very interested, some who lost their jobs because of the change-over from steam locomotives to diesel engines, and many members throughout the rural districts of Ontario who have people very much concerned about closing stations that in the judgment of the Canadian

National Railways management were not economical or in the best interests of Canada as a whole, but which local people are very hot about. I realize that; but I would be very sorry if this committee wished to change its terms of reference entirely and open this up.

Mr. HORNER (*Jasper-Edson*): Mr. Chairman, if I may, I agree with the chair that we would turn this into a sounding board. Certainly any of us in western Canada could bring a delegation down here. We have two divisional points, in particular Regina. I think we discussed very thoroughly how this committee would operate this year. There was a lot of discussion last year about going after policy rather than details. I think this is a perfect example of it. Certainly this could be discussed in the general policy of the future of railway operations, but I certainly do not think we should make it into a sounding board for different delegations from all the small towns across Canada.

Mr. CHEVRIER: I agree with you that I do not think this committee should be a sounding board for all those who want to come and make representations to the committee, because we would never get any work done. On the other hand, I do not know that I can agree fully with what you have said is the meaning of the terms of reference. I think once you include in the terms of reference that you are going to consider voting of public moneys and also the right to call witnesses, then I think that those at least who are here should be given an opportunity to be heard and put on the stand. Mr. Benidickson undoubtedly brought one or two or more people here who would be in a position perhaps to give succinctly and fairly quickly the representations that should be made. I am sure the president of the Canadian National Railways would want to make a statement in respect of that; and that is my reason for supporting the appeal made by Mr. Benidickson.

The CHAIRMAN: Well, it is very kind of you to support part of my suggestion, Mr. Chevrier, but I do not know how you can support part of it and say I was consistent last night in saying we would not hear the mayor of Sioux Lookout, and then suggest this morning that we should hear somebody who had not even sent a wire he was coming. I do not think that would be consistent on my part.

Mr. CHEVRIER: Whether or not it would be a difference depends on the way you put the interpretation that you as chairman put on the terms of reference. We should at least have the advice and counsel of the house as to what is the meaning. I respect your views as to what it may mean, but I think we should have the opinion of the clerk, or someone who is in the habit of advising committees of this sort, as to whether or not these delegations can come.

Mr. Benidickson has also said that in 1949 representations in connection with the movement of the Trans-Canada Air Lines from Winnipeg to Montreal had been heard. I do not see how it would be in disagreement with your ruling if we heard those who are here. It would not take long.

The CHAIRMAN: It would not take long, but it would establish a precedent.

Mr. SMITH (*Simcoe North*): I would like to know from Mr. Chevrier, under the terms of reference, under what heading these witnesses could be heard. Surely that power to send for papers and persons relates to the specific terms of reference in the first part of the house order, and I would be very interested to know under which heading of the reference this belongs.

Mr. BENIDICKSON: Could I say a word on that point? We are examining the financial operations of our largest crown company, the Canadian National Railways. We have before us its large deficit. We, I think, have every reason to want to know whether that deficit is smaller by virtue of policies being

applied against the employees of the road, and after examination of the community havoc and the personal havoc whether we as members of parliament would approve of the policies that we will hear described by the management.

Surely when we are talking about the capital investment in dieselization, when we will be pursuing an inquiry about the past expenditures and the future expenditures in centralized traffic control and so on, surely we, when we are examining a crown company—and we represent the people of the land—surely we want to know what effect this is having on the employees and the communities concerned. Surely we want to know not only the opinion of the management with respect to this development, but we want also to know what the opinion is of the employees concerned.

I do not think there is any question about the relevancy of hearing employees of the Canadian National Railways. The precedent that I discussed yesterday with the clerk was a precedent in 1956 when a motion was put before the committee that we should call other aviation company representatives besides Trans-Canada Air Lines and go into the question about competition in the air industry in general. I think it is entirely different from the proposal that representatives of the employees be heard by this committee, as was done in the case of the Trans-Canada Air Lines in 1949.

The CHAIRMAN: They were sent for in 1949.

Mr. BENEDICKSON: No, the premier of Manitoba and the employees and others put in a request, just as has Sioux Lookout, for an opportunity to describe to the committee of the House of Commons the effect on the economy of Manitoba, and Winnipeg in particular, of the proposals of the Trans-Canada Air Lines to move such a substantial portion of their mechanical work from Winnipeg to Montreal. The situation is identical here.

I also want to say, as to the point that when you hear representations from one community you have to hear representations from every community, I know that that is always difficult for a committee of the House of Commons. The normal way of doing it, if we are examining, say, Veterans Affairs, is that it is sufficient and satisfactory for the committee to confine itself first of all to representatives, if possible, that are of a national body. Otherwise we naturally have duplication and, as you suggest, we would be here interminably. But I think in practically all examinations of this kind we do first of all like to have a national representation if possible, which would then eliminate representations at the lower level and avoid duplication. Where there are differences between the provinces we often have representations of provincial organizations. That, from time immemorial, has been the committee's policy.

The members of this committee went out of their way to hear regional problems in 1949, and I see no reason why we should not consider the question of the dieselization and centralization of traffic control in the light of some of these developments, from the point of view of the employees and the residents of these communities. In another way it has already started in Belleville, the town of my learned friend Mr. Grills, and he and I have had conversations about it, in that employees at Belleville have found it necessary to move to either Toronto or Brockville in order to comply with the new arrangement of eliminating Belleville as a terminal of the Canadian National Railways. That is, I believe, up before the No. 1 board of adjustment under the Industrial Relations and Disputes Investigation Act.

Mr. Chairman, I just want to go back to this question of national representation. As perhaps all who are familiar with brotherhood operations realize, we have regional operations. We have the west under a general chairman, and we have eastern Canada under general chairmen of the various railway trades—the locomotive engineers, the trainmen, the conductors and others. We have available to us, because they are here, representatives of these

organizations which represent all the men crossing their vast territory, although it is divided into two—eastern and western regions—but I think if we consider management and inquire about management's intention as the result of their having invested in dieselization and centralized traffic control that it would be very proper for this committee to hear some of these representatives who represent the whole of western Canada with respect to their particular trade; and also those who represent the eastern region.

The CHAIRMAN: Now, let this committee get down to business. In 1956 the committee turned it down because of the reasons we have given for turning it down now. True, in 1949 when a whole provincial government decided, the committee of that day did receive representations from the province of Manitoba. But when you start to put it on the basis you are putting it here, Mr. Benidickson, there are 180 other members in the House of Commons who are not members of this committee. They are just as important to the people they represent as the labour union members who are here. There are 110,000 people working for the Canadian National Railways in this country and for you, as a member of parliament, and I say they ought to be given a chance, if they have got a grievance. They have just as much right to come here and if you are going to receive anyone I may say, as your chairman, in my own personal opinion it is ridiculous to receive representations from several hundred unions from across this country and labour men who have a grievance. We have 180 members who might want to be heard this morning or tomorrow, and they have every right to be heard,—or any other member across the country.

We have the right to send for somebody, and if you as a committee decide to send for somebody to come here we will do that; but if we are going to open the gates, then I can see that if I sit as your chairman I have a full-time job all summer. This is not a matter of days; it is going to be a matter of months. To me it would be ridiculous, unsound, breaking tradition with the committee's practices and contrary to the terms of reference, and I do not think we should spend a lot of time on it. I think we have spent too much time now.

Mr. BENIDICKSON: Mr. Chairman, with respect, I must appeal your ruling.

The CHAIRMAN: Very well, are you ready for the question?

Mr. CREAGHAN: May I say one thing? I would like to make clear that since the middle of January the labour council has been hearing the New Brunswick union on the radio, and periodically has been discussing the Canadian National Railways in the Canadian scene. Unfortunately I have missed most of those broadcasts, but I heard one last Friday night in which they passed on to their citizens the suggestion to write to their elected representatives to urge the government to interfere in this matter.

I feel if anybody is going to come here to discuss this matter it is just as important to the maritimes and to Moncton, which is the largest Canadian National Railways point east of Montreal, that they be given an opportunity as well. The fact that some persons came here on their own initiative does not give them any more right than someone in Winnipeg to be invited. I would like to see this thing wide open, but I am not going to sit here and have it understood that if someone wants to come here on his own initiative he will be heard. Next year we will be getting 500 people here, unless we take a stand on it. If it means the only people you will hear are those invited by the committee, we will have to support that ruling. I do not think anyone coming on his own initiative has any more right to be heard than the people back home. They have as good a right as the people who have come.

Mr. GRILLS: Mr. Chairman, although I may be out of order, coming from Belleville I may say Belleville is vitally concerned, and there are some problems

I am at a loss to handle myself—some not pleasant to live with, or not pleasant to the people involved; and I hope at some time, if you cannot hear the people who represent a particular group, that we can have them all together some place else,—because I am not well enough versed in railway matters to challenge Mr. Gordon here, and I need their assistance sometimes.

Mr. BENIDICKSON: I am in the same position.

Mr. FISHER: I wonder if the minister has not been considering this problem and thinking of some possible alternative. My problem, as far as I am concerned, is somewhat similar to the Sioux Lookout situation. I have four divisional points in my constituency. I do not blame Mr. Gordon, but certainly some information will be gained from some of the words we are going to have with him regarding the ramifications at Sioux Lookout. I know Mr. Benidickson would like to bring someone in here, because of the lack of information about the policy, which is one problem that is now beginning to crystallize in everyone's understanding.

I must disagree with Mr. Benidickson, that we must have the union representatives, because there are other places I know of like Sioux Lookout which are very much affected, such as Hornepayne and Nakina.

Last year I considered having a delegation brought from there. I did not want them to appear before the committee, but to get Mr. Gordon off in a corner and use some strong arm. I suggest that the minister might come up with some proposal that perhaps would allow the committee on railways, canals and telegraph lines to deal with this; or is it possible for some other committee to deal with these railway communities that are being so affected.

I should also like to point out to Mr. Benidickson and other members of the committee that this is not only a Canadian National Railways problem. The Canadian Pacific Railway is faced with the same thing, exactly the same thing. Mr. Gordon and his men are going ahead with this change at Sioux Lookout. What I am suggesting now, Mr. Chairman, is that it is a very, very large question and it calls in question individual and corporate responsibility. I am wondering if the minister has any suggestion on how we should approach this particular matter.

Mr. HEES: Mr. Chairman, as to whether or not the committee on railways, canals and telegraph lines would be willing to hear delegations that would wish to come and appear before them, that is up to that committee. The committee runs its own affairs. The hon. gentleman from Port Arthur is a member of that committee, in fact he is a member of the steering committee, and I think it is a question he could bring before the steering committee. What the committee wishes to do, it will do. But it is up to the committee to make the decision.

Regarding this proposition that has been brought up this morning, as the chairman has very well said, if you start allowing a representation from one community—and I have never yet, turned down a delegation that wanted to come and see me and I never will; this is the way we conduct our business—but, regarding this committee, if a delegation from one area is allowed to come in and present its case before you, you will have to accord the same right to delegations from every one of the 265 ridings.

As the chairman has said, you have 180 members of parliament who are not on this committee, each of whom would feel he, too, could come before this committee and voice any grievances he might have to put forward on the specific Canadian National Railways operations in his particular riding. This thing, as the hon. chairman has said, would go on for months and months and months. If the committee wants to do that, then that is, of course, up to the committee; but I think this would be completely impracticable and unfair to the management. The management cannot afford to be here for that length of time. They have a job to do. Of course this is something the committee should

decide for itself. I think the proposition that has been put forward by the hon. member, Mr. Benidickson, is completely unworkable and it is very strange, Mr. Chairman, to see Mr. Benidickson getting up to make this holier-than-thou proposition this morning, when the government of which he was a junior member in 1956 took exactly the opposite view and turned this proposition down cold. It seems strange, all of a sudden, to see this great change of heart, and to see these crocodile tears being dropped all over the desk by Mr. Benidickson.

I suggest, therefore, that you have a vote on this matter to decide what the committee wishes to do.

Mr. BENIDICKSON: Mr. Chairman, I cannot permit that remark to remain unanswered. The Minister of Transport has completely stretched what I said. I conceded sympathy for the chairman if we were to hear representatives from every community, and I said that to me it was incredible to think that we would not listen with respect to these important matters presented by representatives of the unions for territories as wide as the whole of western Canada and the whole of eastern Canada.

I have conceded the proposition that you could not hear perhaps just those from one community who happened to be here or who have requested the right to be here; but surely we might hear representatives on a regional basis, having regard to working conditions which are different in eastern Canada as compared with western Canada.

Like Mr. Grills, I feel I should be in a hopeless position to examine Mr. Gordon and his officers about these working conditions, and whether they appeared to be administrating the Canadian National Railways with proper consideration to the men and to the communities, without hearing from the other side of the picture, and from representatives of the men.

Again I must quarrel with the minister of Transport on the precedent of 1956 when the question was that of permitting competitors to be heard. The question then was whether Canadian Pacific people should be heard on T.C.A. operations. That was not at all similar to the precedent as indicated, namely, that the previous government had been prepared to hear representatives of employees, in connection with the work at Winnipeg on the T.C.A., and on conditions exactly similar to what we have here.

The CHAIRMAN: I think we are ready for the question.

Mr. FISHER: I would like to question the minister again.

The CHAIRMAN: I think in all fairness, you must remember that the minister is not a member of the committee. I do not think at this stage, and because of the question which is now before the chair, that this is the procedure we should follow. The question is simply this: are we going to accept witnesses or not. It is not whether you can find another way to accept them, but simply are we going to accept them or not?

Mr. FISHER: The minister's reply was not very clear to me. Has he a policy on how we might handle this problem?

The CHAIRMAN: That is not the issue before the chair. The issue before the chair is whether we are going to proceed in the orderly manner we have set up, or are we going to receive the delegates which Mr. Benidickson has presented, and quite properly so from his viewpoint.

Mr. FISHER: I am still not clear on what alternative the minister would suggest to get around this.

Mr. DRYSDALE: I don't think it is a question for the minister to decide. I object to the way Mr. Benidickson has sidetracked the committee. What we want to do is examine on questions of policy, and I think on questions of

policy we are in a position to ask Mr. Gordon what he is doing, and what response he has had. And if Mr. Benidickson is so inadequate as not to be able to ask about the problem of Sioux Lookout, I would like to ask some very probing questions myself.

I think at this particular time we should decide whether or not it is necessary to call any witnesses. We have not heard anything about this question of Sioux Lookout in a discussion of policy; yet Mr. Benidickson says he thinks it would be unfair if we should not hear what other witnesses have to say. To my mind all that amounts to is an admission that Mr. Benidickson feels that he is unqualified to put forward the problems of the people of Sioux Lookout.

Mr. BENIDICKSON: Very briefly, Mr. Drysdale has misconstrued the position I took. There is a real difficulty here. My hon. friend is not familiar with the agreements and the clauses of those agreements and the very grave dispute between management and labour with respect to their interpretation.

Mr. DRYSDALE: Let us get to them and discuss them.

Mr. BENIDICKSON: If my hon. friend would like to leave it open on the basis that after we have examined the management, when he perhaps may come to the same conclusion that I do, that it is not as easy to interpret the agreement of which I speak, then I would be prepared to withdraw.

Mr. DRYSDALE: Let us wait until we get to the problem.

Mr. BENIDICKSON: Then perhaps after they are explained, and it is seen what the other side of the picture is, perhaps this committee would reconsider the question.

The CHAIRMAN: Are you prepared to withdraw your appeal to the chair's ruling Mr. Benidickson?

Mr. BENIDICKSON: That is right, on the understanding that after we have examined the effects of central traffic control, dieselization, and so forth, the representatives of national bodies of the workmen would still be with us. I think the committee would probably feel it appropriate at that time to hear them.

The CHAIRMAN: No, we cannot leave it on that basis.

Mr. BENIDICKSON: All right. I suggest the committee be polled.

The CHAIRMAN: All right. We are ready for the question. All those in favour of proceeding as we have indicated—no, I suppose Mr. Benidickson's motion must first be put. All those in favour of Mr. Benidickson's proposal will please raise their hands?

The CLERK OF THE COMMITTEE: Seven.

Mr. BENIDICKSON: Might we have a recorded vote, Mr. Chairman?

The CHAIRMAN: Well, all those in favour will please stand up.

Mr. BENIDICKSON: The clerk of the committee usually makes a list of the members of the committee.

Mr. DRYSDALE: That is, those in favour of calling witnesses now?

The CHAIRMAN: No, those in favour of hearing representatives who might be here, or who might wish to come.

Mr. BENIDICKSON: Is it not customary for the clerk of the committee to call each name, when the individual member would answer yes or no.

The CLERK OF THE COMMITTEE: Mr. Carter?

Mr. CARTER: Yes.

The CLERK OF THE COMMITTEE: Mr. Badanai?

Mr. BADANAI: Yes.

The CLERK OF THE COMMITTEE: Mr. Benidickson?

Mr. BENIDICKSON: No, against the chairman's ruling. Mr. Chairman, there was no motion. There was a ruling by the chair which I appealed.

The CHAIRMAN: Yes.

Mr. BENIDICKSON: And it is a matter of recording those in favour of following the chair, and those against doing so.

The CHAIRMAN: That is right. All those in favour of supporting the chair's ruling—all those in favour of sustaining the ruling of the chair?

The CLERK OF THE COMMITTEE: Mr. Badanai?

Mr. BADANAI: No.

The CLERK OF THE COMMITTEE: Mr. Benidickson?

Mr. BENIDICKSON: No.

The CLERK OF THE COMMITTEE: Mr. Brassard (*Lapointe*)?

(No response).

The CLERK OF THE COMMITTEE: Mr. Broome?

Mr. BROOME: Yes.

The CLERK OF THE COMMITTEE: Mr. Browne (*Vancouver-Kingsway*)?

Mr. BROWNE (*Vancouver-Kingsway*): Yes.

The CLERK OF THE COMMITTEE: Mr. Campeau?

(No response).

The CLERK OF THE COMMITTEE: Mr. Carter?

Mr. CARTER: No.

The CLERK OF THE COMMITTEE: Mr. Chevrier?

Mr. CHEVRIER: No.

The CLERK OF THE COMMITTEE: Mr. Chown?

Mr. CHOWN: Yes.

The CLERK OF THE COMMITTEE: Mr. Creaghan?

Mr. CREAGHAN: Yes.

The CLERK OF THE COMMITTEE: Mr. Drysdale?

Mr. DRYSDALE: Yes.

The CLERK OF THE COMMITTEE: Mr. Fisher?

Mr. FISHER: Yes, with regret.

The CLERK OF THE COMMITTEE: Mr. Fraser?

Mr. FRASER: Yes.

The CLERK OF THE COMMITTEE: Mr. Grills?

Mr. GRILLS: No.

The CLERK OF THE COMMITTEE: Mr. Horner (*Jasper-Edson*)?

Mr. HORNER (*Jasper-Edson*): Yes.

The CLERK OF THE COMMITTEE: Mr. Kennedy?

Mr. KENNEDY: Yes.

The CLERK OF THE COMMITTEE: Mr. Martini?

Mr. MARTINI: Yes.

The CLERK OF THE COMMITTEE: Mr. McPhillips?

Mr. McPHILLIPS: Yes.

The CLERK OF THE COMMITTEE: Mr. McWilliam?

Mr. McWILLIAM: No.

The CLERK OF THE COMMITTEE: Mr. Mitchell?

Mr. MITCHELL: No.

The CLERK OF THE COMMITTEE: Mr. Monteith (*Verdun*)?

Mr. MONTEITH (*Verdun*): Yes.

The CLERK OF THE COMMITTEE: Mr. Pascoe?

Mr. PASCOE: Yes.

The CLERK OF THE COMMITTEE: Mr. Robinson?

Mr. ROBINSON: Yea.

The CLERK OF THE COMMITTEE: Mr. Smallwood?

(No response).

The CLERK OF THE COMMITTEE: Mr. Smith (*Simcoe North*)?

Mr. SMITH (*Simcoe North*): Yes.

The CLERK OF THE COMMITTEE: The yeas total 15, and the nays total 7.

The CHAIRMAN: I declare the chairman's ruling sustained. Before we hear Mr. Gordon, I overlooked having the representatives of the C.N.R. at the head table introduced, outside of Mr. Gordon. I think Mr. Gordon will probably introduce them to you as he proceeds. Mr. Gordon, gentlemen.

Mr. DONALD GORDON, C.M.G., LL.D. (*President, Canadian National Railways*): Mr. Chairman and members of the committee: It is a pleasure to appear before you once again and I have at the table with me, on my left, Mr. S. F. Dingle, vice president, operations, and Mr. J. L. Toole, who is vice president, Accounting and finance.

As your chairman has indicated I have submitted certain suggestions which might improve the procedure and you will remember that this was done as a result of an invitation by the committee to do so.

The presentation which we have prepared is designed to follow that which has been set out in general terms in the letter of May 21 which the chairman read to you, and I understand the chairman sent copies to you when they were received.

First I would like to give a commentary on 1959 operations, calling attention to some of the highlights of the year, together with some suitable observations on significant events or trends affecting the transportation industry. Following that we have prepared for you a visual presentation which deals with our capital and operating budgets and this, we hope will give you a good grasp of our capital investment planning, the financial position, forecasts of traffic and yardsticks of performance. During the visual presentation we hope to be able to deal immediately with the kind of questions which may arise out of this type of consideration of the broader issues and problems and challenges which confront railway management.

I may say that, for the purpose of the record, we will make available to Hansard a photostat of the charts together with the notes which I will use in the running commentary. The questions and answers, of course, which flow from the presentation can be recorded the same as at any other committee hearing.

I turn now to the commentary on the 1959 operations and the Canadian national results.

The printed annual report for the year has, of course, been distributed to you, and it records in detail many facets of the year's operations and reflects many creditable achievements. However, the financial results, as I have stated in the report, were most disappointing and particularly in light of the fact that economic activity reached new record levels and the gross national product in real terms was approximately 5 per cent greater than in the previous year. For the country as a whole, industrial production reached an all-time high and corporate profits rose to near record levels. Associated

with this increase in income was an expansion in consumer expenditures which increased by 6 per cent over 1958. As I have stated, our C.N.R. results were most disappointing because this buoyancy in the general economic situation was not reflected in our net position and the deficit for the year amounted to \$43.6 million.

Despite the growth of 5 per cent in the gross national product, our revenue ton-miles increased by only 1.3 per cent. The simple fact of the matter is that the C.N.R., in common with all railways, is obtaining a smaller share of the over-all transportation market.

In 1958, the last year for which dominion bureau of statistics data is available, all railways' share of total inter-city revenue ton-miles in Canada amounted to 52 per cent. The striking contrast is evident when you consider that in 1948 the corresponding figure was 71 per cent. Between the same two years, Canadian National's share of the total inter-city freight market declined by about the same proportion.

As I have stated in the annual report, the increase in our freight revenues was largely the result of the freight rate increase authorized by the board of transport commissioners in December, 1958. The effective yield of freight rate increases is rapidly diminishing, and any further increases will more and more be offset by the competitive rate reductions which we must institute to retain high-rated traffic.

Mr. CHEVRIER: May I ask Mr. Gordon if he is following the lines of the report.

Mr. GORDON: No, this is my commentary on the year's operations. It is an elaboration, in a sense, of the report itself.

Mr. CHEVRIER: Thank you.

Mr. GORDON: It is an interpretive analysis, if I may put it that way.

On the basis of these facts, I can only foresee that the average revenue per ton-mile will at best remain constant and that it will probably decline gradually.

Road-Rail Integration

In endeavouring to meet this problem of the erosion of our share of the market, significant progress was made during the year covering the integration of highway and rail services. It will be appropriate for me to make a general statement of the kind of approach which we are making to this subject. Our aim is to offer the kind of transportation service that is best suited to public demand, both in terms of cost and efficiency, always remembering that our basic interest is the provision of service through railway facilities in which we have a very large capital investment.

Basically, we regard the truck as the best instrument for retailing transportation services and the railway for wholesaling. In this context, the major interest of the railway is the long-distance haulage of bulked commodities. On the other hand, road transport is a better agency for the collection and distribution of much traffic and is more economical and faster for short-distance service. This statement is, of course, a generalization. It is not possible in every instance to draw a hard and fast line, since the character and conditions of the traffic itself provide infinite variation in which one method of transportation may have an advantage over the other, or in which combinations of both methods may be the most efficient answer.

It is quite wrong, in my opinion, to regard competition between the railway and private truckers as a fight for survival. The C.N.R. is not in any way interested in driving the independent trucker out of business. Both the railway and the truck are tools of transportation, and in the best interests of the

shippers and receivers—the users of the service—each tool should be used as it is best suited. What is needed, therefore, is an intelligent recognition of a competitive co-existence and the development of a coordinated rail-highway system in which each form of transportation would play the role which it best fits.

To further this concept, the C.N.R. decided to supplement its railway services with collateral trucking facilities wherever an integration of operations would effectively improve its services and, therefore, its competitive position. In endeavouring to implement that policy, the C.N.R. is proceeding cautiously and, as a general rule, is endeavouring to enlarge its trucking facilities through a very selective purchase of existing highway operators. In this way, it is not adding suddenly to the total transportation facilities of the country, since that would likely produce an undesirable surplus and lead to a period of uneconomic competition by the weaker operators striving to maintain their position. Our objective is to acquire a trucking pattern so as to obtain for our own operations the benefits of coordination with railway facilities or even replacement of them in those cases in which the truck is the better tool.

As the pattern of railway trucking operations in coordination with railway facilities becomes established and recognized, we are convinced that it will bring into being a very desirable stabilization of the transportation industry in Canada and the elimination of a number of uneconomic practices.

As our interest in acquiring some trucking operations has become known, we have had offers of sale from existing highway operators. This has meant a situation of some delicacy for us because prices suggested have shown wide variations, and also because we must endeavour to avoid overlapping or duplicate purchases in working out a pattern to fit our coast to coast operations. In addition to this, since no one trucker has the same over-all type of operation as another, there are complications about such things as franchise rights, financial adjustments between the parties concerned in ownership, and legal formalities of various kinds, which make it essential to avoid premature disclosure of discussions or negotiations in process.

At December 31, 1959, no purchase had actually been completely consummated. However, for the information of the committee, I may say that at the end of February of this year we had in commitment, through option or otherwise, units of purchase in round figures involving an investment by the C.N.R. of \$5 million. We hope to be successful over the coming year in establishing a pattern of collateral trucking service that will give patrons of the C.N.R. across Canada the benefits in service and cost that an intelligent coordination with the railway should provide.

Passenger Train Service

I think that it might be in order also if I dealt briefly with our attitude in respect of passenger service.

When the railways of Canada were originally built, they had a virtual monopoly of land transportation. As a result, there grew up the attitude on the part of the public, the government and railway employees that it was the duty of the railways to provide service wherever and whenever there was a public demand for it. Because of this, the provision of passenger services has long been regarded as an implicit obligation of railway operations. This attitude still persists, and Canadian National management and staff have always attached great importance to the provision of good passenger service to meet the demands of the public. Canadian National believes, however, that the time has come for all concerned to recognize that the railways no longer have a primary responsibility to provide any passenger service other than may be justified by the economics of sound business administration.

In recent years, due principally to competition from the private motor car, there has been a steady reduction in the volume of passenger business. This has resulted in many services becoming unprofitable.

In general, our objective is to operate passenger services in those areas where they can now, or in the reasonably foreseeable future, meet their costs of operation in a manner which will engender the good will of the travelling public and encourage passenger travel.

As the various passenger operations of the company are studied, it will be found that certain train services are not returning their variable cost of operation—i.e., those costs which vary with the actual traffic carried and the equipment required to handle it—and that there is no reasonable prospect of their doing so in the foreseeable future. It is our policy in respect of such services, where alternate services are available or can be made available, that they should be removed or changed so as to relieve the railway from the obligation of performing service at a loss.

This particular matter of passenger deficits has assumed some significance at the hearings of the Royal Commission on Railway Transportation and certain information has been asked of the railways which now is in the course of preparation and will be formally submitted before that body.

Suffice it to say here, however, that provided legislative support is forthcoming which would promote and encourage the changing or elimination of all train services which are unprofitable and where alternate means of transport are available to the public, it is the view of Canadian National that the deficit of passenger train operations can be very substantially reduced and, it is hoped, eliminated entirely so that eventually the remaining services may be on a compensatory basis.

The C.P.R. and ourselves are currently engaged in a most intensive exploration of all aspects of our passenger services. A joint committee of our most experienced officers is working in this field with instructions to consider the whole problem from a new aspect recognizing that developments of recent years have made it evident that the public is not prepared to support the existing total of passenger train services provided by both companies. Therefore, non-patronized and non-profitable passenger runs must be reduced in an orderly and business-like manner. We have in mind, in particular, the steady growth of new and better highways and the fact that the private automobile already provides over 85 per cent of the inter-city passenger miles which leaves but 15 per cent to be divided between rail, air and bus.

We definitely recognize that while essential or even highly convenient passenger services require to be continued in the public interest, they must be on a highly selective basis. We believe that a merging of services could be found possible with a view to eliminating the duplications of unnecessary competitive services. While we are opposed to a further pooling of passenger trains on the pattern now being operated, we are hopeful that agreement can be reached in respect of area withdrawals so that the railway which is naturally dominant will have responsibility for necessary services. It may also be found possible to work out a form of alternating service to common terminal points bearing in mind of course that while termini may be the same for both railways different territories are traversed. There are many complicating factors, however, and all I can say now is that both railway managements are tackling the problem with energy and determination.

Royal Commission on Railway Transportation

I shall now refer briefly to the Royal Commission on Railway Transportation, particularly as it relates to the matter of Crowsnest rates. As I said, in a personal appearance before the royal commission last December, this matter

is one which has been surrounded for many decades by debate, controversy and difference of opinion. In the past the Canadian National Railways had refrained from comment in respect of existing legislation covering these rates. Our position was that if it was decided to hold an official inquiry in regard to the adequacy or otherwise of these rates and we were asked to give evidence, statistics analyses or other information, then we would do so.

Accordingly, we presented to the commission a detailed and comprehensive analysis of our revenues and expenses in handling export grain and grain products. Our study showed that for 1958 the gross revenue to Canadian National from traffic moving at statutory and related rates was \$28.7 million, producing an average revenue per ton-mile of 0.48 cents. The cost of moving this traffic, however, was \$63.9 million, which gives an average total cost per ton-mile of 1.07 cents. These figures showed quite graphically the extent of the increase in the level of return from this traffic which is required to enable Canadian National to cover its total cost.

It was the submission of Canadian National that the best solution of the problem at this time would be that the rates in grain and grain products to export positions remain under statutory control and that the railways be reimbursed for the cost of handling this traffic by means of a payment equal to the difference between the statutory rate and the amount found to be a just and reasonable level of return, such payment to be recognized as a subsidy on behalf of the grain growers of western Canada.

This summarizes correctly the position which we have presented in our brief, but since the cost studies are still subject to extensive cross-examination by various counsel representing western interests it would not be in order for me to make any further comment at this time.

Wage Demands

Coincident with the announcement of the intention to appoint a royal commission to inquire into the freight rate structure and other matters, the government announced that no further general freight rate increases would be allowed for a period of one year. I mention this fact in this context because the wage demands now facing us assume most serious proportions.

Negotiations with unions representing non-operating employees on Canadian lines were started last November. On the fifth of that month these unions served demands on Canadian National and other Canadian railway companies which would cost the Canadian National about \$57 million annually when fully implemented and if extended to all other employees.

Between November 25, 1959, and the end of January 1960, seven meetings were held between representatives of the railways and the unions. Mr. Crump, president of the Canadian Pacific, and I attended a meeting on January 15, at which time we gave a frank explanation of the serious problems facing the railway industry and, as well, urged the need to consider the inflationary threat posed by another round of wage increases and which would be detrimental to the true interests of the workers they represented. Under all the circumstances, an earnest appeal was made asking the unions, in the interests of the industry and of the employees themselves, to withdraw their demands. In due course, the organizations declined to do so and at a meeting on January 22 they advised us of their intention to apply to the Minister of Labour for the establishment of a board of conciliation and investigation.

The Minister of Labour complied with this request on February 18. Mr. P. F. Vineberg, Q.C., has been appointed member for the companies and Mr. David Lewis, Q.C., will represent the unions. A chairman has not as yet been selected. In relation to these wage demands, it has become abundantly clear that the consequential increase in our cost of operations sharply reduces our competitive ability to attract traffic and will inevitably curtail the ability of the railway industry to employ labour.

Modernization

Substantial capital expenditures were made during the year to implement a number of long-range programs directed towards the systematic rehabilitation and modernization of the property. Projects such as the completion of the dieselization program, centralized traffic control, automatic hump yards and roadway improvement have had a beneficial effect on our operating performance. I should say, however, that the rise in wages and material prices has consumed not only those gains in productivity which were attributable to the capital works program but also has cut deeply into the effective yield of freight rate increases. On the capital side, many programs call for additional expenditures between now and 1965. Later I will indicate the forecast in this respect and give you an idea of the investment involved and the attempts we are making to reduce the amount of capital borrowing required.

Of equal importance with these capital improvements have been our efforts to better our operations and methods through such means as integrated data processing, work study and operational research. These three techniques, of which some of the current applications were discussed in the annual report, have already produced most satisfactory results in helping us to make a more efficient use of men and materials.

Reorganization

There is one further development which I feel is particularly worthy of mention, namely the proposed reorganization of our administrative structure.

The organization plan of the Canadian National Railways has remained virtually unchanged since the amalgamation of the separate lines in 1923. The organization structure that was adopted at that time followed the traditional pattern for railways in North America, particular emphasis being given to the organizational set-up of the Pennsylvania Railroad where Sir Henry Thornton gained much of his early experience. The suitability under today's conditions of this traditional form of organization is now being questioned by a number of railroads, including the Pennsylvania, and important departures are being made from it in some instances.

The solution of our organizational problems revolves to an important extent around the question of decentralization of authority and responsibility. Because of the nature of the railway business a fully decentralized plan of organization does not seem to be practical. However, we have become convinced that the organization structure of the system should be decentralized to a considerable extent on a geographical—as distinct from a departmental—basis. This means that regional offices should become much more autonomous and self-contained than they are at present and that the activities of head office departments should become concentrated upon staff or service functions in the broadest sense of these terms.

This is the long-term objective to which we are working. But no one would suggest that such far reaching changes should or could be put into effect overnight. It would be a mistake to introduce such fundamental changes in the organization structure of the system before these have been worked out in the greatest detail and before the new plan of organization has been fully

explained and is generally understood by all concerned. Accordingly, we have had in hand for some time a number of detailed studies. These have now reached the point where we should be able, within the coming year, to implement some firm decisions on the precise nature, extent and timing of organizational changes to be made.

General

We will now present a number of graphs which will illustrate in quantitative terms some of the things which I have been saying about our competitive position, the capital we have spent and the improvements which have resulted, and, finally, the impact of cost and rate increases on our net result.

The charts and analyses which you will see are part of the normal aids and tools which we in management use in our everyday assessment of economic and competitive factors.

As we go along, we will define any difficult terms. The job of forecasting is a difficult one and we employ all of the latest known scientific techniques. We have departments staffed by economists and statisticians which keep in close touch with all recognized sources of data and whose members meet with economists from other industries and government from time to time.

The whole presentation is a selection of some thirty or more slides divided into five different groups.

The first group of slides depicts trends in our traffic and analyzes the changes in our competitive position within the economy together with an indication of how we view the future.

The second group deals with the capital budget, its financing and details of some of the major improvement programs, including rail, replacements, C.T.C., large terminals, equipment purchases and dieselization. The presentation follows the format of the capital budget which is contained in the mimeographed sheets which you have.

The third group illustrates some of the effects which capital expenditures have had on costs, productivity and performance.

The fourth group shows our estimated income account for 1960 and follows the format of the mimeographed sheets which you have.

Finally, there is an analysis of the change in our financial result between 1955 and 1959. It shows the impact on our present position considering cost and revenue relationships in the past five years.

Every slide will be accompanied by a brief explanation and throughout the presentation your comments will be welcome and we shall endeavour to answer any questions that may arise as you have made note of them.

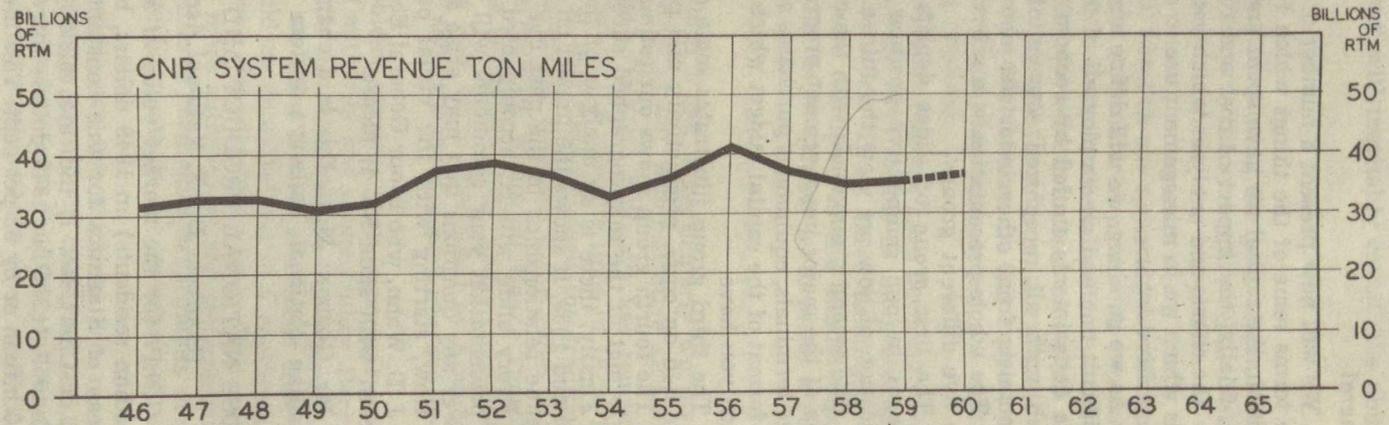
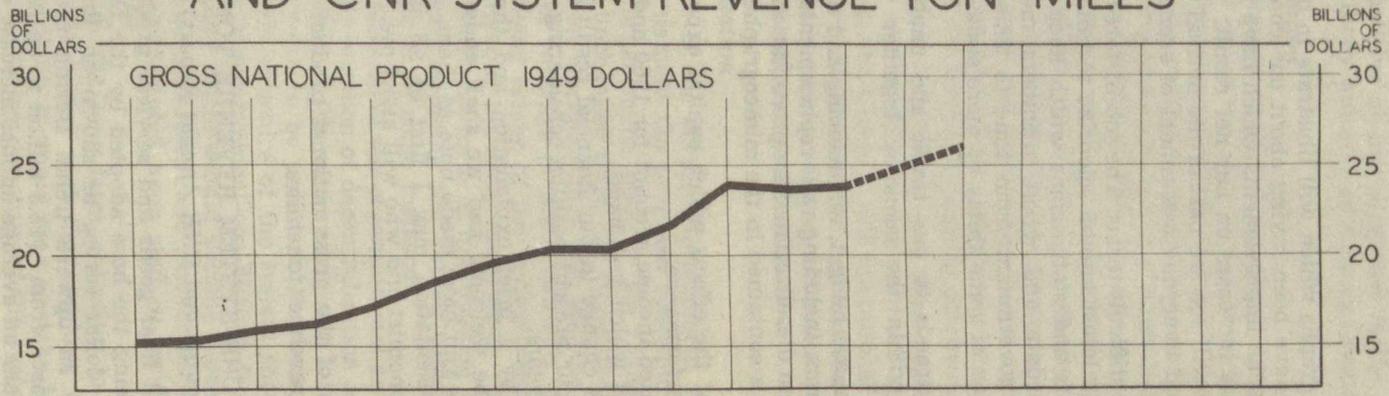
Now, starting with the visual presentation may I first of all introduce Mr. J. D. Wahn, who is our General Economist and who will assist me. Will you proceed with slide No. 1, please.

Mr. GORDON: Now, this is a chart of the gross national product and the Canadian National Railways system revenue ton-miles.

GROSS NATIONAL PRODUCT AND CNR-SYSTEM REVENUE TON-MILES (Sources: *D.B.S. National Accounts and CNR Annual Report*)

G.N.P. (or the market value of all final goods and services produced by Canadian residents) in 1949 dollars, being the base adopted by the Dominion Bureau of Statistics for this constant dollar series, as shown on the upper half of Chart No. 1, indicates clearly an upward trend. During the period 1946-1959, G.N.P. in 1949 dollars increased from \$15.3 billion to an estimated \$25.0 billion or by 63 per cent. This means an average annual increase of about $3\frac{3}{4}$ per cent.

GROSS NATIONAL PRODUCT AND CNR SYSTEM REVENUE TON MILES



CNR-System Revenue Ton-Miles, which are shown on the lower graph of Chart No. 1, also show an upward trend, but the average annual increase over the same period amounts to just over one per cent.

Historically and statistically, the CNR ton-miles have tended to follow the curve of real production in the economy. However, the economy has been growing at a more rapid rate than that of CNR ton-miles for at least two main reasons. In the first place, there is some evidence to suggest that the service sector of the Canadian economy has increased at a more rapid rate than the goods sector. The service sector, as you realize, is an estimate of the earnings of professional people including the large earnings of such people as lawyers, dentists and people of that kind and does not necessarily produce freight traffic. So that the service sector has been increasing at a much more rapid rate than the goods sector. This has caused real G.N.P. to grow more rapidly than our ton-miles. The second reason that our volume is growing at a less rapid rate is because of increased competition from other modes of transportation. The effects of this increased competition may be seen in the following two charts.

Mr. DRYSDALE: I was interested in the years 1954 to 1956 because the apparent growth is almost the same, the gross national product and the Canadian National Railways system revenue per ton-miles. What was the fact that brought about the decline, because the gross national product levelled out and this shows a decrease?

Mr. GORDON: Mr. Wahn can give it and I will see if I agree with him. I just want to make the point that in a chart of this kind you cannot be precise. All we get from here is an impression from which we attempt to forecast traffic.

Mr. J. D. WAHN (*Economist*): The chart shows that this represents the recession when the gross national product actually levelled off in the economy. Canadian National Railways revenue ton-miles fell off too.

Mr. DRYSDALE: What particular area contributed to this loss, that is, why the decline?

Mr. WAHN: There was a fall-off in pulp and paper products and mineral products as far as I can recall.

Mr. GORDON: I do not want to convey the impression that we expect the ton-mile curve will follow exactly the fluctuations in the gross national product. These are merely indicators. Historically there is a relationship but it is not necessarily a "must" relationship. It does not necessarily follow the gross national product. But in order to answer your question precisely we would really have to analyze the change in gross national product that took place. I should expect that another thing was the intensification of the competition.

Mr. CHEVRIER: May I ask whether this downward trend as shown in the chart is common to all the other Canadian railways?

Mr. GORDON: Yes it is.

Mr. CHEVRIER: And how does it compare with the Class I railways in the United States?

Mr. GORDON: My recollection is that the Class I railways in the United States showed a more severe differential than we did.

Mr. CHEVRIER: And is there any other reason for this drop which went from, I think it says here, 40 billion revenue ton-miles in 1956 to 35 billion in 1959—? Is there any other reason for this drop in the Canadian National Railways revenue ton-miles than the two you have given, the service sector as opposed to the goods sector and the competition?

Mr. GORDON: Well, yes there would be other reasons, but it is difficult for us to analyze it. We have given you the two main reasons, namely, that the service sector is becoming a bigger part of the gross national product. That would be one answer to your question, Mr. Drysdale. The second point is that there has been an increase in competition. We have not yet really got a fine analysis of the mix of traffic. The mix of traffic would have an effect.

Mr. CHEVRIER: Mr. Chairman, I do not know whether or not you want to go on with these charts or have us ask questions now.

The CHAIRMAN: I think we tentatively agreed that we would proceed and keep notes of questions, Mr. Chevrier.

Mr. CHEVRIER: I think it would be better if we did.

The CHAIRMAN: There is no strict ruling on it, but that was our tentative arrangement yesterday. Of course, there is always a little latitude. There may be something you think cannot be referred to after the graphs are shown. But I think if we run through them and if you keep notes of your questions, we will have staff here to answer them later.

Mr. GORDON: You see, what I am trying to demonstrate to the committee. It is difficult because this is the first run-through. What I am trying to demonstrate really is that management has information in this form available to it. These charts and analyses are the sort of things we look at and examine and from them we try to form a judgment as to what may happen to our traffic situation. This has an impact on our equipment orders.

I wonder if the committee members have previously had any understanding of the great amount of statistical analysis that we have. I have heard comments to the effect that the railways never know what they are doing and they just go on in an old-fashioned traditional way, and that we have not availed ourselves of modern tools with respect to the management of the property. I hope by the time I am through, you will agree with me that we have an efficient analytical process for assessing the future.

Mr. DRYSDALE: Are we getting copies of these particular charts now?

The CHAIRMAN: It will be arranged in Hansard.

Mr. DRYSDALE: Well, if they are arranged in Hansard will these proceedings be available tomorrow morning?

The CHAIRMAN: No.

Mr. DRYSDALE: What I am trying to get at is, I understand there are quite a substantial number of these charts, and it is rather difficult to retain a mental picture of anywhere from 20 to 30 charts and to ask sensible questions on them.

Mr. GORDON: Mr. Chairman, may I make a suggestion on that? I didn't know this but I find that we did bring down with us our master charts from which these pictures are made. These are the original charts themselves. These will be available for this meeting in this room. We will leave them here and any member who wants to come and look at them is quite free to do so.

The CHAIRMAN: You can make note of your questions, that on chart No. 1 you have a certain question.

Mr. GORDON: But the charts will, as I say, be available after the meeting.

Mr. CREAGHAN: I wonder if Mr. Gordon might be in accord with this suggestion. He has told us his charts would appear in the printed Hansard but he has brought some prints with him for the use of the committee reporter. Can not the committee reporter run off some stencils tonight so we would at least have the charts tomorrow?

Mr. GORDON: I cannot speak for the committee reporter.

The CHIEF REPORTER: I suggest, Mr. Chairman, that this is not a reporting problem, but rather one of officials supplying a sufficient number of photostat copies of the charts.

Mr. GORDON: Shall I proceed, then?

The CHAIRMAN: Yes, go right on.

Mr. BROWNE (*Vancouver-Kingsway*): Has there been a decision made on this matter? Are you going to get copies of the charts?

The CHAIRMAN: You might get copies possibly in the house.

Mr. DRYSDALE: In the meantime it is going to take time. It means you are putting them on file.

Mr. GORDON: The master charts from which these photographs were made will be available to the committee.

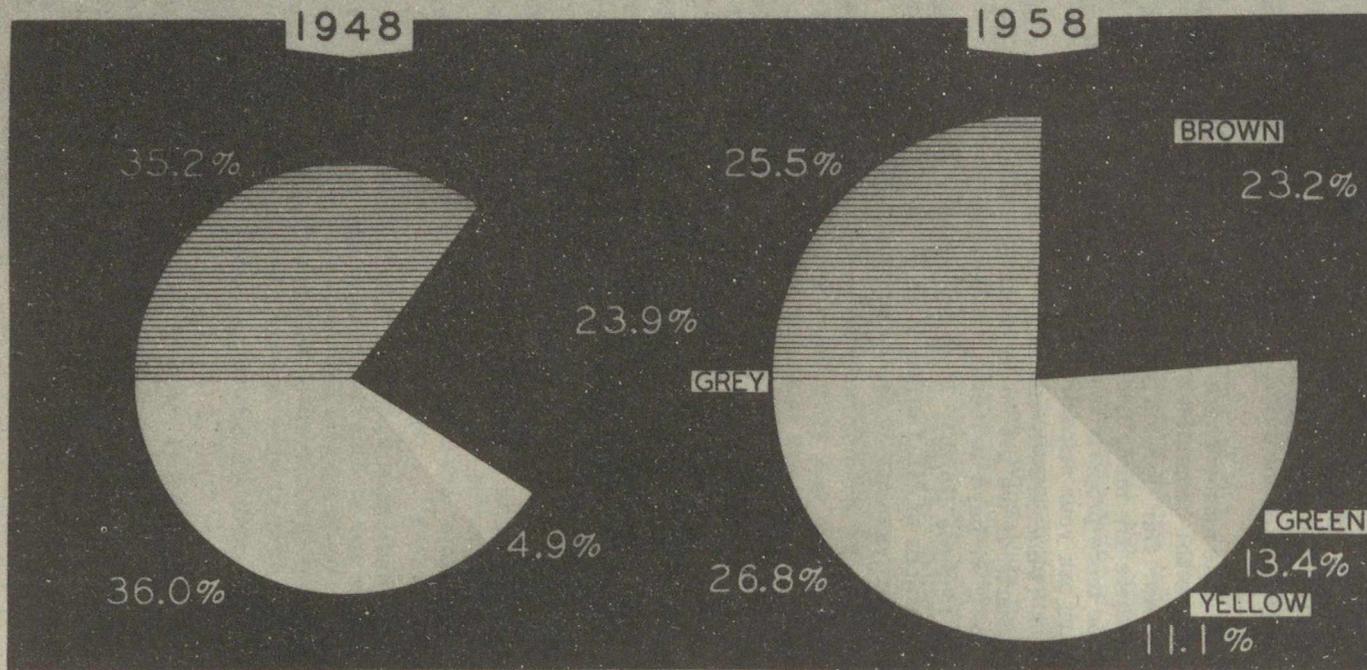
The CHAIRMAN: Our decision yesterday was that we should proceed. In fairness to all, there are many people here who have questions to ask and I think it could be more properly done if you kept track of your questions and then each in turn ask your respective questions.

Mr. BROWNE (*Vancouver-Kingsway*): The difficulty arises in that we do not know the charts. If we get on to chart No. 10 and we want to compare it with chart No. 1, we have no means of comparison.

Mr. SMITH (*Simcoe North*): It seems obvious, Mr. Chairman, if anyone wants to ask questions of Mr. Gordon later on he will have to bring physical charts, and all it is necessary to do is remember the number of the chart on which you want to ask questions. I should like to suggest we allow him to continue.

INTERCITY REVENUE TON MILES FREIGHT - CANADA

GREY  CNR CANADIAN LINES GREY  OTHER RAILROADS
 BROWN  WATER GREEN  OIL PIPELINES YELLOW  ROAD



82,920
29,192

TOTAL IN MILLIONS
CNR IN MILLIONS

126 878
32,395

+ 53.0%
+ 11.0%

Mr. GORDON: Chart No. 2 shows another study intercity revenue ton-miles—The sources are indicated in the notes which I will give to Hansard. The chart commentary follows:

INTERCITY REVENUE TON-MILES—CANADA

(Source: D.B.S.)

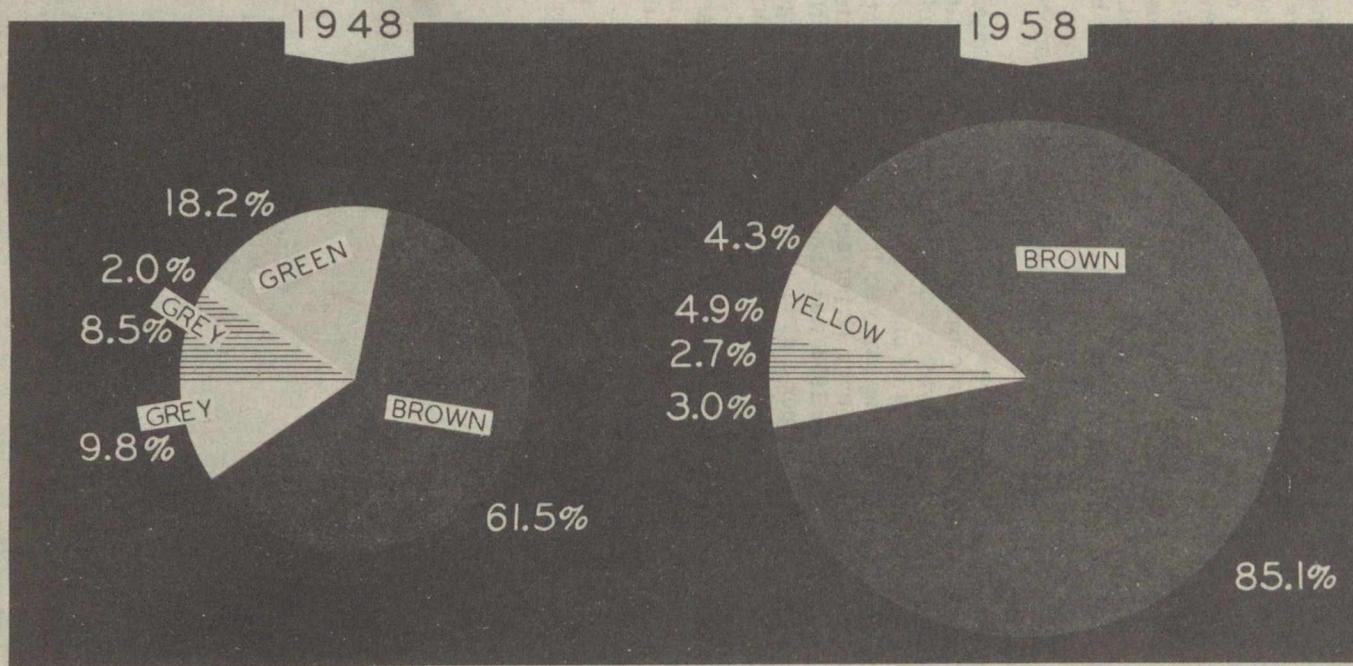
This chart shows how the total Canadian intercity freight transport market was shared by the competing modes of transportation in the years 1948 and in 1958. The area of the circle on the left side represents the estimated 83 billions of revenue ton-miles of total intercity freight in 1948, while the circle on the right reflects the estimate of ton-miles of total intercity freight ten years later, which amounted to about 127 billion ton-miles. Thus, total ton-miles of the entire intercity freight transportation market increased by almost forty-four billion ton-miles from 1948 to 1958, or an increase of 53 per cent. During the same period CNR ton-miles increased by 11 per cent. Not only has the total market grown substantially during the past ten years, but there has been a marked change in the distribution of the market amongst competitive transportation media.

The sectors in the circle represent the most important intercity freight carriers in Canada: CNR, all other railroads, road transport, water transport, and oil pipelines. (Air freight was not included as air ton-miles for 1958 represented less than three-tenths of one per cent of the total). Air, in other words, is not a real factor in intercity yet. It may be noted that whereas in 1948 the railways accounted for over 71 per cent of the total intercity transportation market, their share in 1958 was about 52 per cent. CNR's dropped from 35 per cent in 1948 to 26 per cent in 1958, but its percentage in relation to total Canadian railroads remained steady throughout this period, ranging between 46 and 49 per cent. Water transport during this period fluctuated between 23 and 25 per cent of the total. Road transport increased its share from five per cent in 1948 to 11 per cent in 1958. However, this increase is in no way indicative of the relative gain in revenues as most of the increased traffic was in high-rated goods.

It is interesting to note how traffic by oil pipelines, which in 1948 was negligible, increased its share of the market to more than 13 per cent of the total in 1958.

INTERCITY REVENUE PASSENGER MILES-CANADA

GREY  CNR CANADIAN LINES GREY  OTHER RAILROADS
 YELLOW  AIR GREEN  BUS BROWN  AUTOMOBILE



19,044
1,623

TOTAL IN MILLIONS
CNR IN MILLIONS

43,473
1,171

+ 128.3 %
- 27.8 %

Mr. GORDON: Chart No. 3 shows intercity passenger-miles. Its source is D.B.S.

INTERCITY PASSENGER MILES—CANADA

(Source: D.B.S.)

During the post-war period the railroads' share of the passenger market also declined. This chart includes air transport and excludes water transport as from a passenger carrying point of view water transport is negligible in relation to total passenger traffic. It also includes intercity passenger miles by bus and private motor-car. On the left hand side, estimated passenger miles in 1948 are represented by the area of the smaller circle, while the circle on the right side represents the 1958 passenger mile estimate. Not only has the railways' share of the passenger market declined but there has also been an absolute decline, going from about 3.5 billion passenger miles in 1948 to about 2.5 billion passenger miles in 1958. Similar trends are also observable for passenger buses.

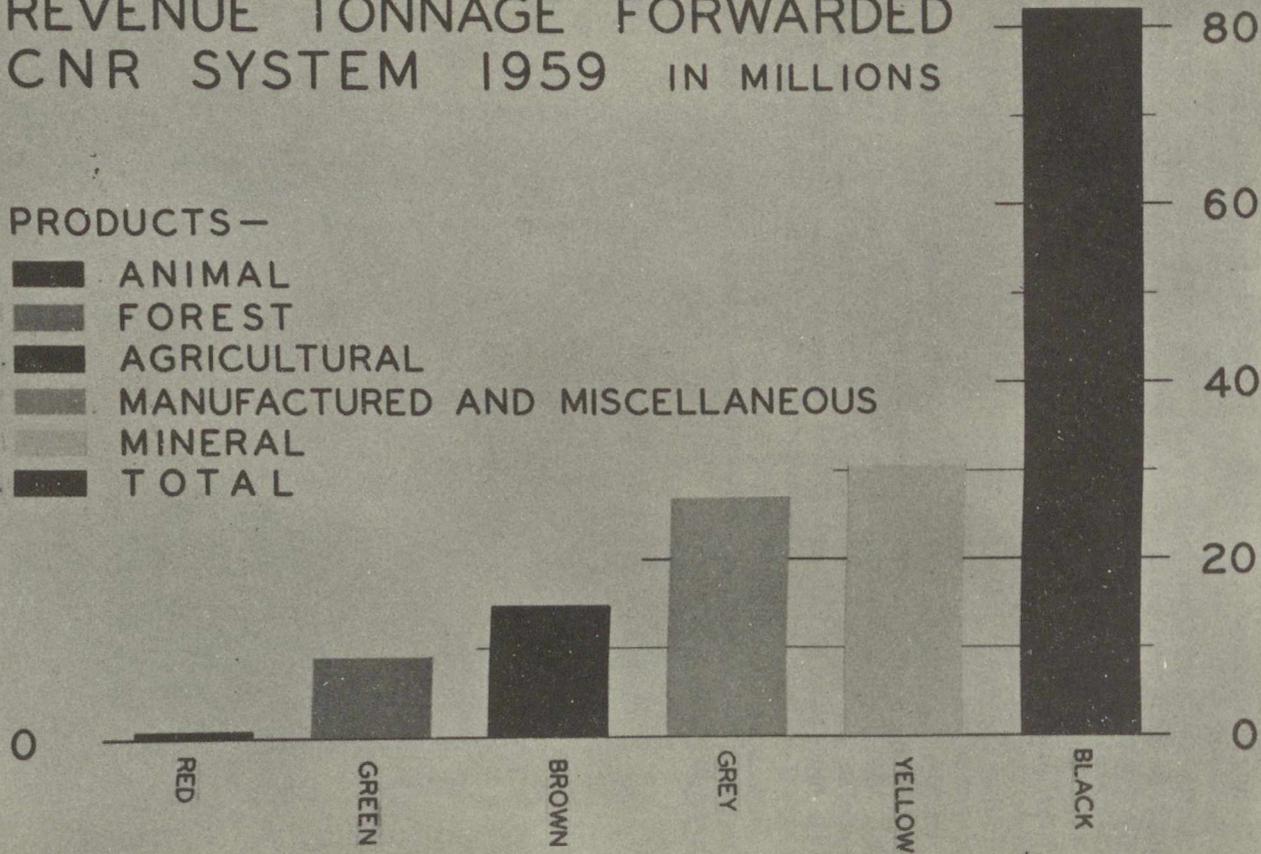
On the other hand, the airlines have grown both in absolute terms and in their share of the market. As you can see they had two per cent of the total in 1948 and by 1958 their share was close to five per cent. The remarkable increase in the use of passenger automobiles is underlined by the fact that in 1958 more than 85 per cent of total passenger miles were accounted for by this means of transportation as compared to about 62 per cent a decade earlier.

That covers that type of chart. I think if we proceed to chart No. 4 we get to the Canadian National Railway system revenue tonnage forwarded. That is shown in millions.

REVENUE TONNAGE FORWARDED CNR SYSTEM 1959 IN MILLIONS

PRODUCTS—

| | |
|--------|--------------------------------|
| RED | ANIMAL |
| GREEN | FOREST |
| BROWN | AGRICULTURAL |
| GREY | MANUFACTURED AND MISCELLANEOUS |
| YELLOW | MINERAL |
| BLACK | TOTAL |



CNR-SYSTEM REVENUE TONNAGE FORWARDED—1959

(Source: C.N.R.)

This chart shows revenue tonnage carried by Canadian National in 1959 for five main commodity groups and the total.

Mr. FISHER: Could I ask one question? Would newsprint and pulp and paper be classed as forest or manufactured?

Mr. WAHN: Partly forest products.

Mr. DRYSDALE: This is millions of what?

Mr. GORDON: This is revenue tonnage forwarded.

The black bar on the right represents total revenue freight, which amounted to more than 82 million tons. This is a 3.2 per cent increase over the total 1958 revenue tonnage forwarded of roughly 79.5 million tons.

The remaining five coloured bars on this chart indicate the breakdown of total revenue freight into five main commodity groups. From the right to the left we have: Mineral Products which accounted for well over one-third (37.3 per cent) of our freight volume; Manufactured and Miscellaneous which constituted close to one-third (32.8 per cent) of total CNR revenue freight movements; Agricultural Products representing about one-fifth (18.4 per cent) of the total, while Forest Products and Animal Products accounted for roughly one-tenth (10.6 per cent) and one-hundredth (0.9 per cent) respectively of our total revenue freight.

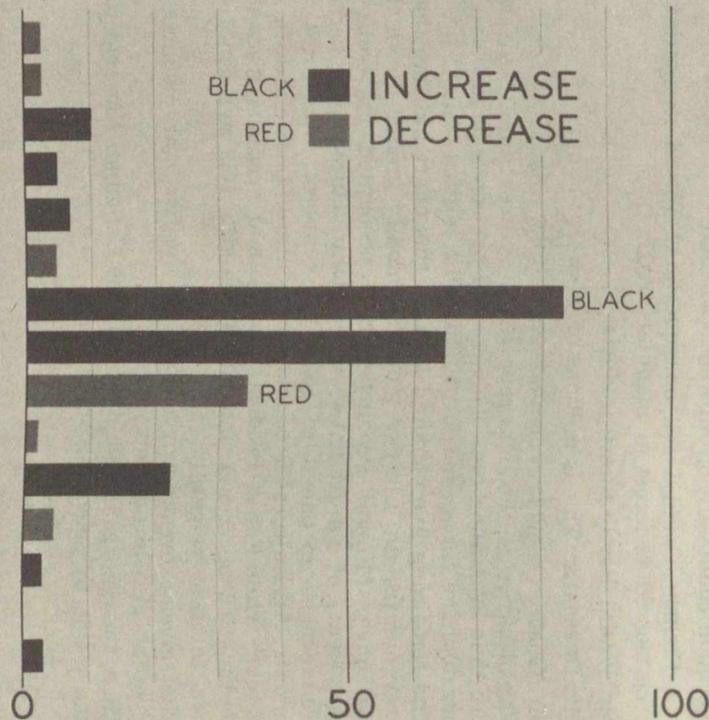
That gives a breakdown as to all of the five main commodity groups and gives you an idea of our carryings.

Then, the next chart, Number 5, is the Canadian National Railways system revenue traffic by selected commodities.

CNR SYSTEM REVENUE TRAFFIC BY SELECTED COMMODITIES

PER CENT CHANGE IN PHYSICAL VOLUME 1959 OVER 1958

- GRAIN
- GRAIN PRODUCTS
- LUMBER
- WOODPULP
- NEWSPRINT
- BUILDING MATERIALS
- IRON ORE
- PRIMARY IRON AND STEEL
- MANUFACTURED IRON & STEEL
- NON-FERROUS METALS
- AUTOMOBILES AND PARTS
- COAL AND COKE
- PETROLEUM PRODUCTS
- TOTAL COMMODITY TRAFFIC



CNR-SYSTEM REVENUE TONNAGE BY SELECTED COMMODITIES

(Source: C.N.R.)

This chart shows how the volume of traffic of the main commodities carried by Canadian National during 1959 compares with the previous year. The commodities comprised in total about two-thirds of all CNR revenue freight movements in 1959.

Year-over-year percentage increases or decreases for these commodities, are shown in black or red bars respectively.

Grain and grain products volume was down by about three per cent. This was mainly due to slightly reduced Canadian wheat exports last year. On the other hand, lumber, woodpulp and newsprint shipments were up, reflecting increased foreign demand for these commodities and increased domestic production in those areas which are served by CNR. Building materials such as sand, crushed stone and cement you will see fell off somewhat. This may have been partly associated with a slightly lower level of housebuilding activity during 1959 as compared with 1958 together with increased competition from water and road carriers. Iron ore, primary iron and steel and automobiles and parts showed substantial gains in 1959 over that of the previous year. These latter gains were, of course, associated with the fact that the Canadian economy had come out of the mild economic recession of the previous year and in the case of iron ore and primary iron and steel were due to new capacity coming into production and the effects of the U.S. steel strike.

There is a general analysis breakdown of those commodities which as I have stated comprise about two-thirds of our total freight movement in the year 1959. Manufactured iron and steel decreases reflect a substantial decrease in imports of pipe and may be largely explained by the completion of some large-scale undertakings such as the trans-Canada gas pipeline.

The decrease in CNR non-ferrous metal movements coincides with lower exports of copper and zinc.

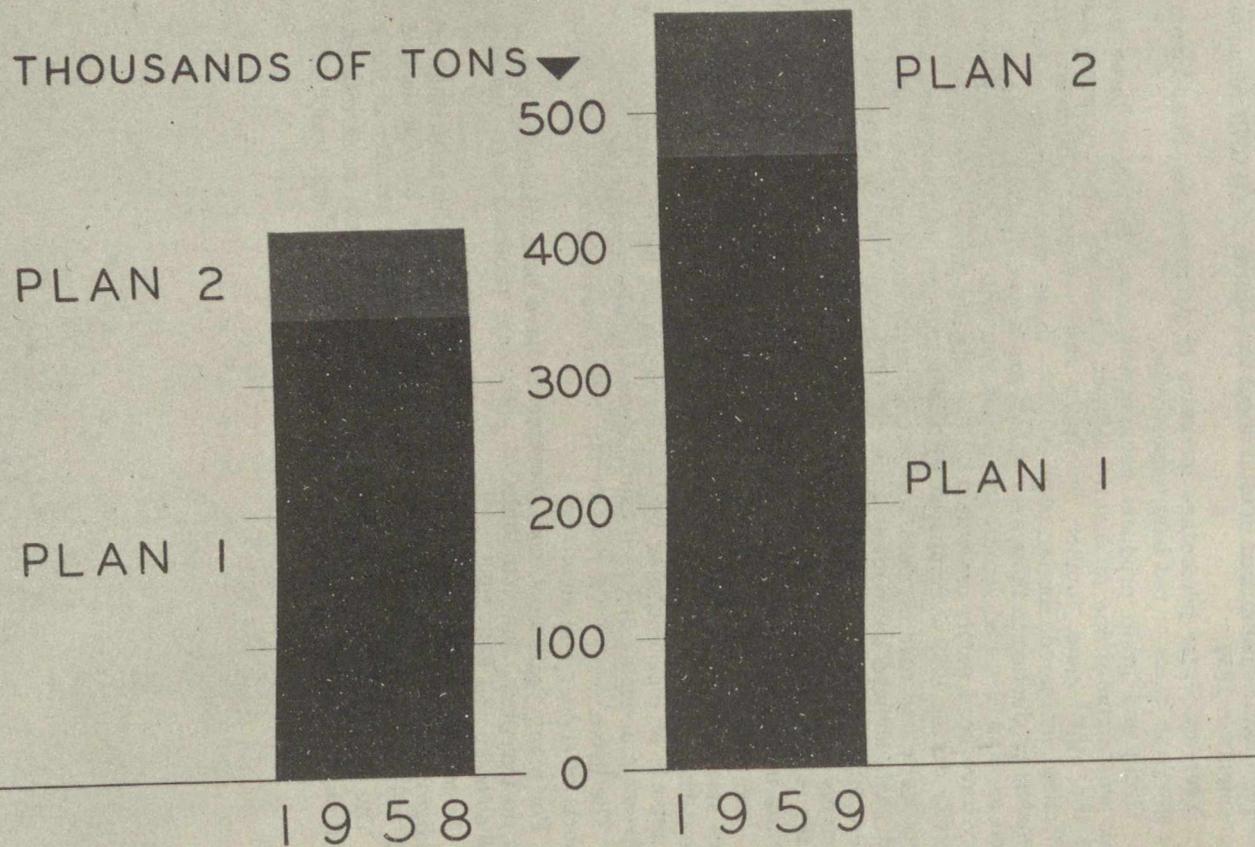
For many years now, coal movements have been declining and last year was no exception. Our handlings of petroleum products were up slightly in 1959 as compared with 1958.

As indicated before, our total revenue freight handlings in 1959 increased by slightly more than three per cent over that of 1958. So you do find in the total railway carryings a general reflection of economic activity in the country.

The next chart, Number 6 is a little different. It will be of interest to you and it shows Canadian National Railways system piggyback traffic 1958-59.

PIGGYBACK TRAFFIC CNR SYSTEM

THOUSANDS OF TONS ▼



C.N.R.—SYSTEM PIGGYBACK TRAFFIC, 1958/1959

(Source: C.N.R.)

Perhaps I could introduce it by saying that piggyback or trailer on flatcar service is a comparatively new development in transportation and indications are that there is considerable growth potential. Even though at present, on a tonnage basis, piggyback traffic does not appear significant (in 1959 it constituted less than one per cent of total freight moved) the year-over-year increase is noteworthy.

Of the various forms of piggyback, Canadian National provides two:

- I. Plan I piggyback where the trailers are owned by highway carriers which increased from 352,000 tons in 1958 to 469,000 tons in 1959 or 33 per cent.
- II. Plan II piggyback, where the trailers are owned by the railway which increased from 65,000 tons in 1958 to 108,000 tons in 1959, or 66 per cent.

Plan I tonnage constituted around 80 per cent of the total piggyback tonnage to 20 per cent for plan II. On the other hand, the average revenue per ton mile for plan II traffic is much higher than for plan I.

Both plan I and plan II services were extended last year. Plan I was extended to points west of Winnipeg as well as between Montreal and Quebec, Montreal and Ottawa. Since March 1959, plan I has also covered the handling of household goods vans from coast to coast. Plan II was extended to cover many additional pairs of points within eastern Canada and between eastern Canada and the maritimes.

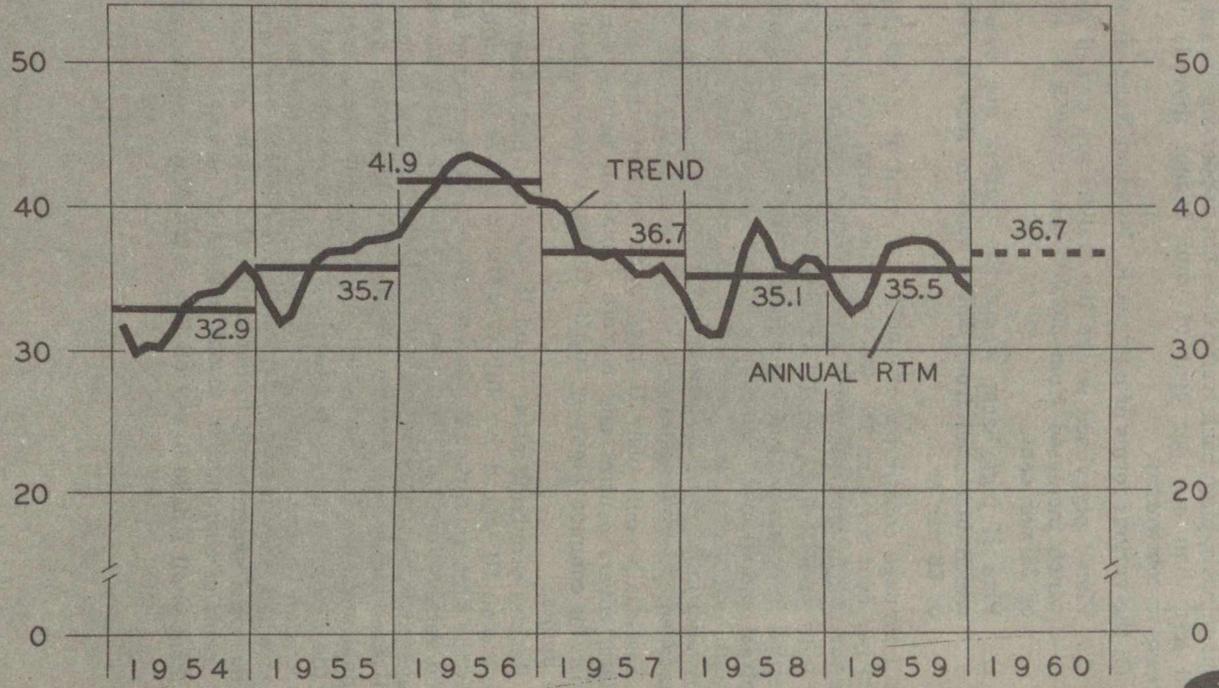
Essentially our plan II piggyback service, that is for railway-owned trailers, covers central and eastern Canadian points; our plan I piggyback service for common highway carrier trailers covers central and western Canadian points.

Besides providing plans I and II, we have had under consideration introducing plan III where the shipper owns or leases the trailers and the railway owns the flatcars, although no decision has been reached as yet. In addition to the various forms of piggyback or trailer-on-flatcar service, we are keeping an eye on the possible development of other forms of road-rail co-ordination such as container—on flatcar, which would lend itself more readily to international and even inter-continental service, and the convertible vehicle which has the flexibility of being able to travel on rail as well as on highway; we are constantly seeking out and testing outside developments and experiments to see where they may be adapted to our needs and we are prepared to carry out our own experiments to determine the merits and possible application of new forms of coordination to our pattern of services.

That is all I have to say on this chart. May I move on?

CANADIAN NATIONAL RAILWAYS SYSTEM REVENUE TON MILES 1954-1960

AT ANNUAL RATE BILLIONS SEASONALLY ADJUSTED



C.N.R.—SYSTEM REVENUE TON-MILES 1954/1960

(Source: C.N.R.)

Mr. GORDON: Number 7 shows in the Canadian National Railways system the revenue ton-miles, the annual rate in billions of tons seasonally adjusted. Seasonally adjusted, as the statisticians here will know, is a means whereby we eliminate temporary or intermediate fluctuations so as to establish a trend line and give you a proper appreciation of what is going on. The tonnage illustrated in the previous charts can be combined with the miles carried to give estimates of revenue ton-miles which measure is our basic unit of production. In the chart you now see as I said the purely seasonal fluctuations have been removed so that you see the underlying trend of our ton-miles for the period 1954-1960.

You will note that we "produced" a record total of 41.9 billion ton-miles in 1956. Volume then fell off to 35.1 billion ton-miles in 1958 and showed a slight recovery to 35.5 billion ton-miles in 1959. The best estimates that we have at present suggest that a further modest increase is probable in the current year. We just put the figure there in dotted lines to give you an idea of what our estimate is.

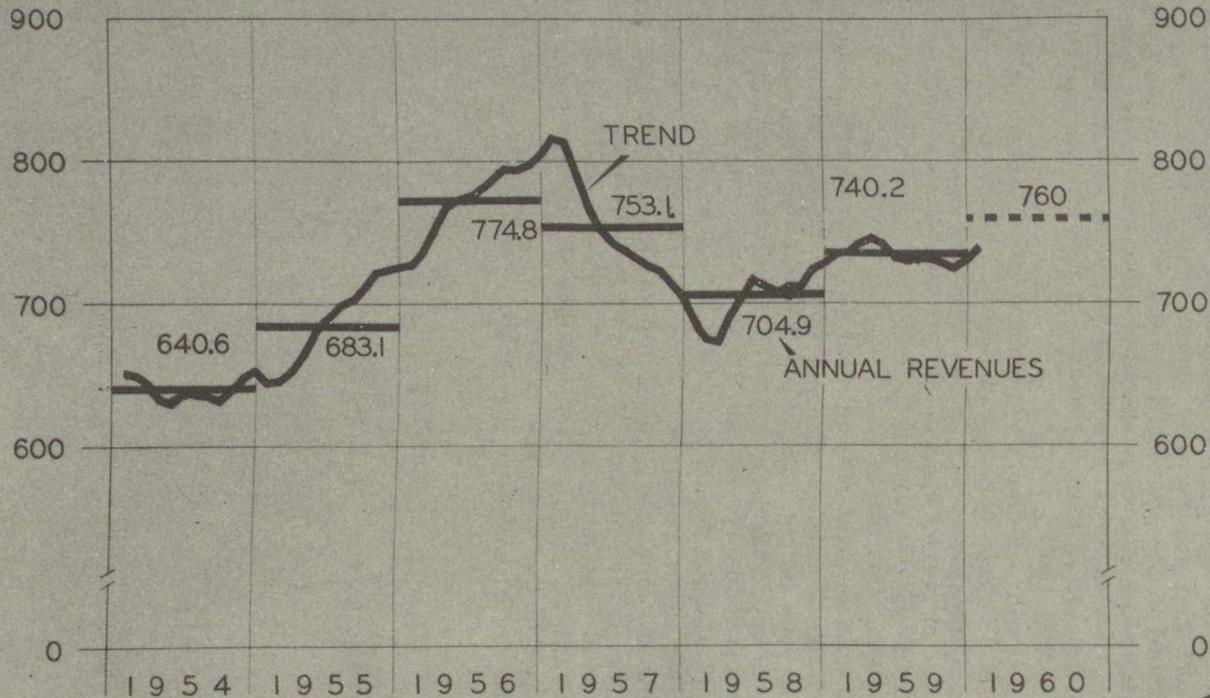
I wish to point out, but I do not wish to over-emphasize, the difficulty of controlling expense, and operating efficiently with substantial fluctuations in our total output both between seasons and between years. Again, both seasonal and cyclical factors make it difficult to get full utilization out of our plant and rolling stock. These fluctuations bring about a host of timing problems in a highly capitalized industry such as ours.

That is just another way of saying that one of the most worrisome problems in the railway business is the problem of peak load because if we were to equip ourselves always to be able to handle any potential of a peak load, we would have much too big a plant and what follows, as it must, is that there will be lying idle for long periods of time expensive equipment and the costs of that investment.

Now, that completes that chart.

CANADIAN NATIONAL RAILWAYS SYSTEM MONTHLY OPERATING REVENUES 1954-1960

AT ANNUAL RATE IN MILLIONS OF DOLLARS SEASONALLY ADJUSTED



C.N.R.—SYSTEM MONTHLY OPERATING REVENUES 1954-60

(Source: C.N.R.)

Mr. GORDON: Chart No. 8 is the C.N.R. system monthly operating revenues which are shown there from 1954 to 1960, given on an annual rate in millions of dollars and seasonally adjusted.

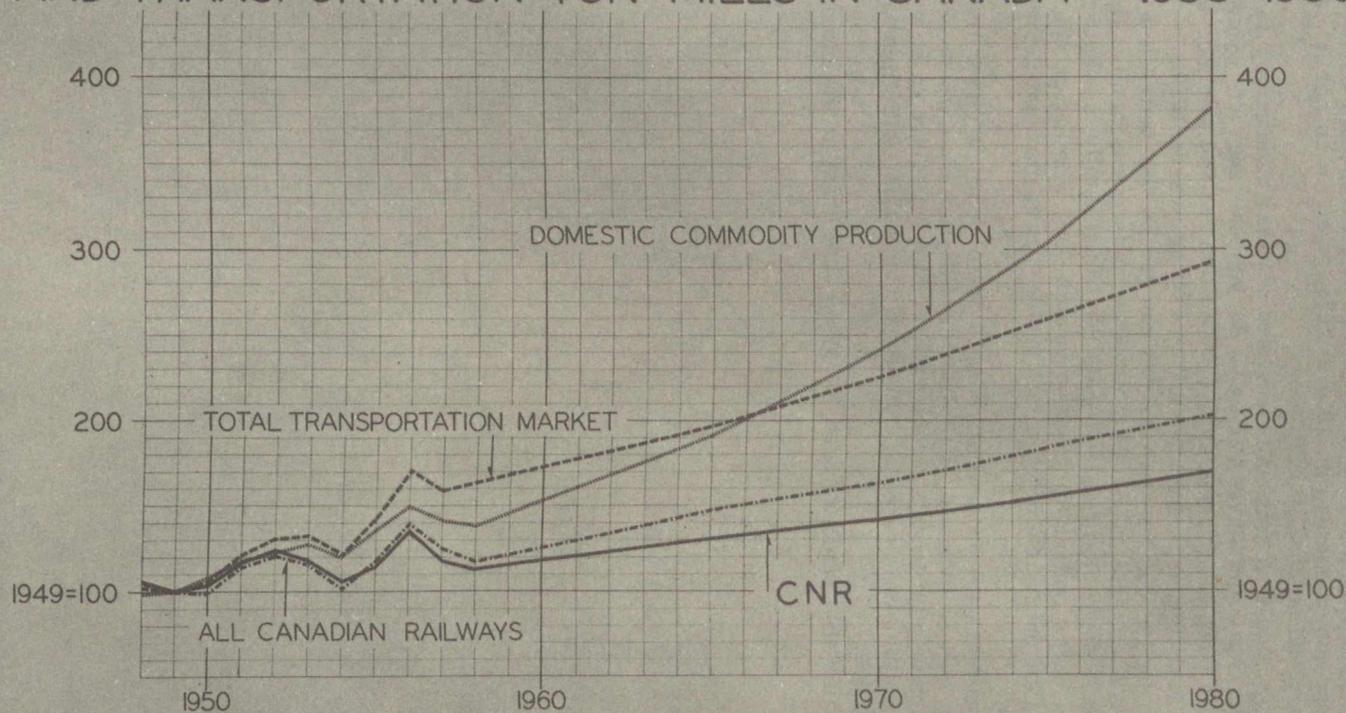
This chart is a seasonally adjusted revenue counterpart to the foregoing ton-mile chart you have just seen. As you can see, our operating revenues reached a peak of approximately \$775 million in 1956, declined to \$705 million in 1958 and rose to slightly more than \$740 million in 1959.

During the coming year, as you can see by the dotted line, we expect to see a small increase in operating revenues. A forecast, made at the end of 1959, indicates \$760 million for 1960,—and that incidentally is a figure you will find later on in my budget for revenue income—but whether or not we attain this depends on the course of economic events in Canada during the latter part of the year.

The most current indicators raise some doubt whether the \$760 million revenue will be attained. If the revenues do not come up to present forecast, then further adjustments on the expense side will have to be made if we are to live within the operating budget. We will deal with this later on in the presentation.

I think that is all we need to say on that chart at the moment.

PROJECTED LEVELS OF DOMESTIC COMMODITY PRODUCTION AND TRANSPORTATION TON-MILES IN CANADA — 1958-1980



PROJECTED LEVELS OF DOMESTIC COMMODITY PRODUCTION AND TRANSPORTATION TON-MILES IN CANADA 1958-1960

(Sources: Royal Commission on Canada's Economic Prospects; Railway Association of Canada; C.N.R.)

Mr. GORDON: This chart indicates some projected levels of domestic commodity production and transportation ton-miles in Canada up to 1980; in other words, this is really a crystal ball chart, we are looking far into the future.

In the foregoing charts we have shown you recent trends in our traffic and in our gross revenues. We have shown how these trends were influenced by conditions in the general economy and by the growth of other transportation media.

The chart before you illustrates on the long-term forecast basis that the demand for our services is expected to grow with the country but not as rapidly as Canada's major commodity industries. The top line labelled domestic commodity production was derived from estimates of the royal commission on Canada's economic prospects and suggests what is expected to happen to the output of goods in agriculture, in the resource industries and in manufacturing by 1980. As you can see, the commission anticipated almost a quadrupling of output in these industries in Canada between 1949 and 1980. The lines labelled total transportation market and all Canadian Railways indicate expected percentage increases in ton-miles for all forms of transportation and for that of Canadian Railways for the same time period. You may note that total transportation volume is expected to triple while railways are expected to double their volume for the period 1949-1980. These educated guesses and I emphasize that that is what they are, were prepared by the Railway association of Canada.

If these latter expectations are fulfilled, we might also expect CNR volume in 1980 to double that of 1949. However, our economists are a cautious lot and they prefer somewhat lower results as shown by the line labelled CNR which represents approximately a 70 per cent increase over the 1949 level. I may say that in coming up with this result they not only took into account the findings of the royal commission on Canada's economic prospects but also studied in some detail transportation trends in approximately 40 industry groups. I feel that their final estimate of about 50 billion ton-miles for CNR in 1980 as compared with 35.5 billion in 1959 and 30.9 billion in 1949 is realistic enough to provide us with a good basis for planning our current capital expenditures. From this kind of analysis we reach decisions in respect of what sort of planning to do for handling the increased volume of traffic, this involves ordering of equipment, locomotives, and so on. We use this type of analysis as a guide. From some points of view our outlook is a little more conservative than that shown by the royal commission, nevertheless we think the indicator a sound one for the purposes of our own planning.

Mr. CREAGHAN: On that last chart, Mr. Gordon, all Canadian railways around 1950, you have the C.N.R. and C.P.R. together, have you not?

Mr. GORDON: Yes, that shows as the dotted line—would you please point to it, Mr. Wahn.

Mr. CREAGHAN: But then when you get over to 1980 it looks as if C.N.R. anticipates getting about 70 per cent of the total railway increase, and the C.P.R. gets 70 per cent also.

Mr. GORDON: There are four different projections. Would you deal with that, Mr. Wahn, and explain it.

Mr. WAHN: These are indexes based on 1949 equalling 100. The railway association expects that by 1980 the total ton-miles carried by all Canadian railroad will increase by 100 per cent, or double the 1949 level.

If we look at their estimate and at their plans, we can judge it was a straight-line projection of what happened over the post-war period. If their projection is right, and C.N.R. maintains a constant proportion of total ton-miles, we would expect our ton-miles to double as well. But we were not satisfied, or rather we wanted to adopt a different approach, so we studied trends in 40 different industry groups—as Mr. Gordon indicated—and using that approach we came up with the result shown here, which is our own individual forecast, that is a 70 per cent increase over the 1949 level. We might get 100 per cent, if the railroad association is correct; and we might get 70 per cent, if we are correct. But I think our forecast is quite moderate, compared with the anticipated 300 per cent increase for the economy as a whole over the 1949 level in quantities of real goods.

Mr. GORDON: I should like to interject a practical note here with reference to this kind of forecasting. We have only been developing these forecasts over the last few years and building up a department for the purpose of trying to get a realistic appreciation of them, but we believe it will be a great deal of help to us in our planning, and even if it is a little conservative and cautious, it still means we will be in a fairly good position.

If we had had this kind of appreciation a few years before 1956, we would not have been caught with our pants down—is that a proper expression?

The CHAIRMAN: Yes.

Mr. HEES: That is accepted.

Mr. GORDON: We would not have been caught, as we were, with a shortage of power. We were short of power, Mr. Dingle is reminding me, in 1956 and it was a very worrisome and a very difficult experience. Some of your gentlemen may remember that back in those days there was almost a national emergency declared in the matter of handling wheat. You will recall that, Mr. Chevrier.

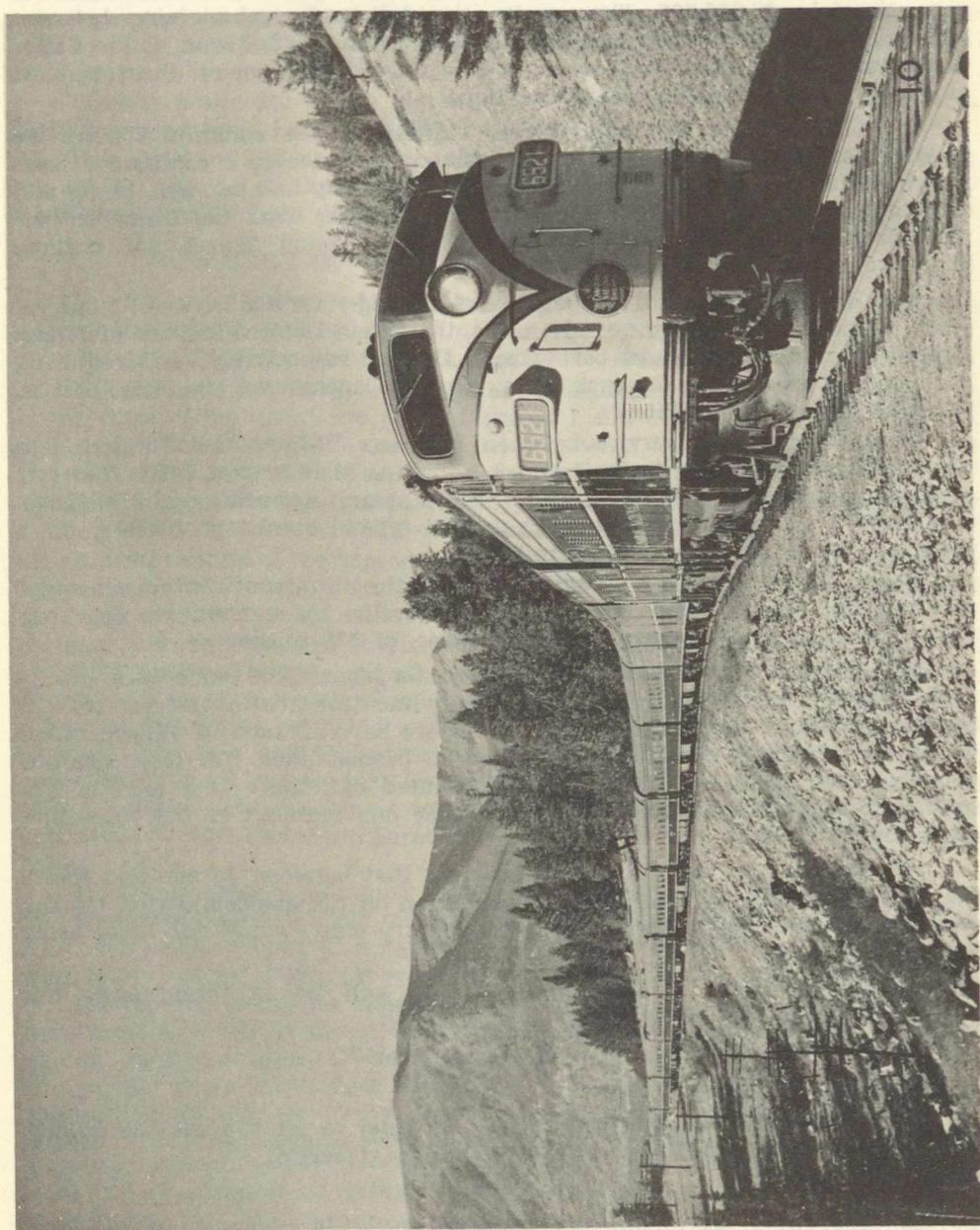
Mr. CHEVRIER: Yes.

Mr. GORDON: We had to give special attention to the movement of wheat, which was being hampered largely because we did not have enough box cars ready at that time. But with this kind of management tool we hope and expect that we will always be able to plan sufficiently far ahead so that we will again be able to meet the kind of conditions which existed in 1956.

Mr. CARTER: Mr. Gordon, have you prepared a chart of the various industry groups showing, for example, the wheat industry and the box cars it would need in 1980?

Mr. GORDON: Not exactly charts, but based on this forecast we make our estimates for equipment, yes.

The next slide is something different and I hope it will provide a change for you. It is a photograph which shows the Super Continental in motion, and I am going to ask Mr. Dingle to give you some idea of what is involved here.



Mr. S. F. DINGLE (*Vice president, operations*): As Mr. Gordon says, this photograph shows the Super Continental in motion, eastbound, between Jasper and Edson. It is hauled by two diesel locomotives, and is made up of a typical summer consist of cars, such as baggage, coaches, sleeping, lounge and dining cars. The cost of such equipment—that is, two diesel units and 12 cars—is approximately \$3,250,000. To operate the full passenger service between Montreal—Toronto and Vancouver, involving trains 1, 2, 3 and 4, the Super Continental and Continental, takes 16 sets of such equipment, the total cost of which is, in round figures, \$52 million.

Mr. GORDON: Let me interrupt to explain to the committee what we mean. In order to provide that trans-continental service on a continuous basis there are 16 sets of that equipment in motion. At any one moment, going and coming between Montreal—Toronto and Vancouver. That particular service therefore, represents a capital investment of, in round figures, \$52 million. Will you go on now, Mr. Dingle.

Mr. DINGLE: Similarly, to operate the passenger service between Montreal and Halifax, involving trains 1, 2, 3 and 4, the Ocean Limited and the Maritime Express with typical consists of 18 and 17 cars respectively, and requiring three sets of equipment for each train, plus the locomotives, the total cost is, in round figures, \$20 million.

To go further, the service between Port aux Basques and St. John's in Newfoundland, involving trains 1 and 2, known as the Caribou, takes four sets of equipment including two diesels per set, a steam generator car, 2 baggage, 3 coaches, 3 sleepers and a diner, or a total typical consist of 10 cars, for a total cost, in round figures, of \$6 million.

So, to cover equipment costs of our entire transcontinental passenger services, and leaving aside some secondary trains throughout, we come up with a total equipment cost, in round figures, of \$78 million.

Mr. GORDON: That is intended to give the committee some idea of the terrific capital costs of maintaining a main-line transcontinental service. Of course, in addition to the main line services, we have all sorts of other services which run partly on main lines, but also on branch lines. But these are our principal trains and, as Mr. Dingle has pointed out, there is a total of \$78 million in capital costs involved in just that one segment of our passenger operations.

Mr. McPHILLIPS: Mr. Dingle, you stated that between Jasper and Edson that train is hauled by two diesel power units, on the eastbound run. On the westbound run, through the mountainous country west, would two units bring it through?

Mr. DINGLE: With a heavier consist we will go to three units; but normally, 2 units are sufficient.

Mr. GORDON: That is a sort of average train?

Mr. DINGLE: That is right.

Mr. GORDON: That was a little break in order to let you see the quality of our photography. Could we go on to the next series.

Mr. BROOME: It is pretty nice looking country, is it not?

Mr. GORDON: I was hoping somebody would say it is a pretty nice looking train.

For the next series of charts the general heading is "Capital investment". At this point I will introduce to you Mr. K. E. Hunt, who has the magnificent title of chief of budgets and engineering economics, so he is really something. I am going to ask him to assist me on these charts, which become more technical.

The next heading is "Capital investment". This subject is covered by five slides and is primarily the 1960 capital budget and its financing, plus what we hope is a fairly accurate forecast of our capital requirements up to and including 1965.

These are the charts, Mr. Drysdale, which basically have to do with the mimeographed budget sheets you have before you now, and which we will look at later, because that is what, technically, we have to ask the committee to approve.

The bar graph #11 which is now on the screen is the summary of capital budget expenditures between 1959 and 1960.

This slide and the next one which shows the financing of the 1960 budget are set up similar to the capital budget and the estimated income account, which has already been distributed and is in your possession.

SUMMARY OF CAPITAL BUDGET EXPENDITURES

The bar chart indicates the capital budgets for 1959 and 1960, by the same general breakdown used on page 1 of the mimeographed budget.

The 1960 C.N.R. budget in black is compared with the 1959 budget in grey.

The bars and figures on the graph are in millions of dollars and the figures to the right of the graph are percentages. If I slip at any point, Mr. Hunt, do not hesitate to interrupt me, because I do not want to accidentally mislead the committee. If I ever mislead them, I want to do it deliberately!

Beginning at the top, it is particularly significant to note the large decrease in the 1960 budget versus 1959—\$56.3 million, to be exact.

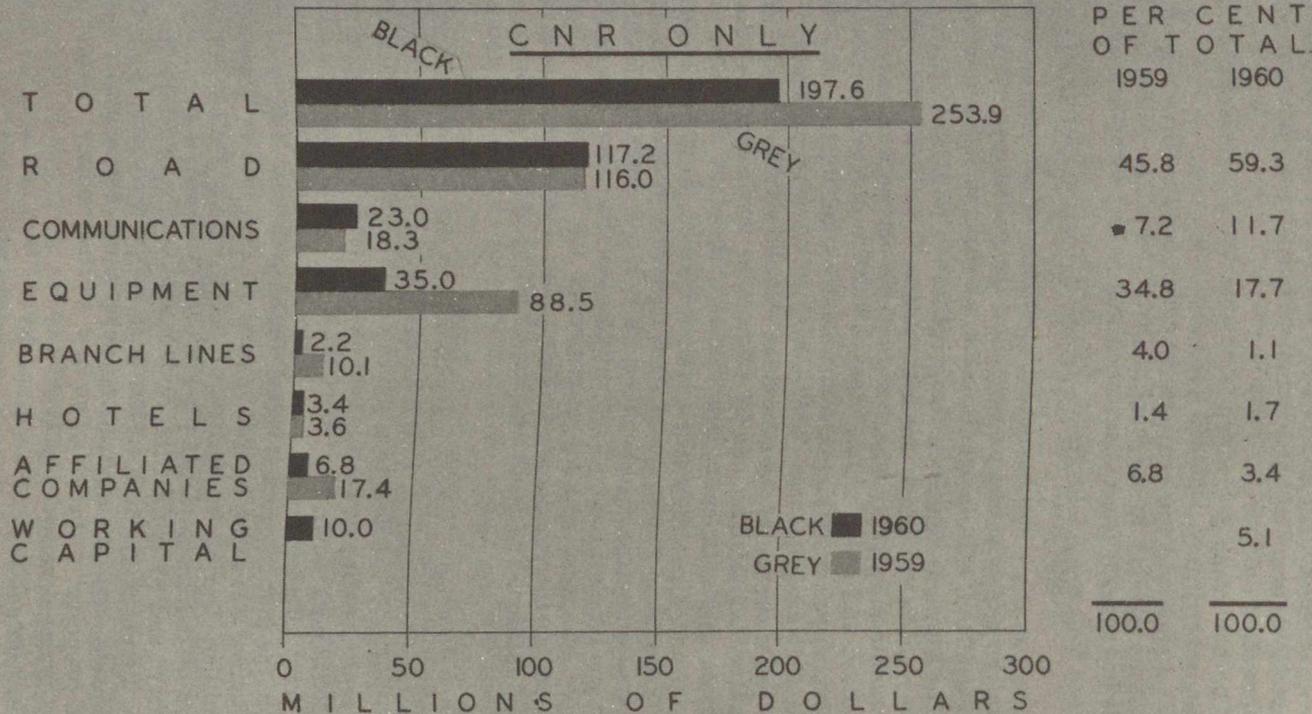
A brief resume of the procedure we follow in the preparation of the capital budget will, I am sure, be of interest to the committee. Almost all capital proposals originate with field officers. These are collected and tabulated at regional and departmental levels and resulted, in the first instance—in a total of \$272.5 million. The field and other proposals were then considered by a Headquarters Committee, which effected a reduction of \$46.7 million, giving rise to a System tabulation of \$225.8 million. At this point the budget received my personal attention and the attention of my immediate advisors, and a re-appraisal by the Headquarters Committee. The result was a further reduction of \$28.2 million. The resulting total of \$197.6 million as shown on the chart was approved by the Board of Directors—and that is the figure which is now before you.

I mention these preliminary efforts to show that from the instance of the first recommendations of field officers in an amount of \$272.5 million, the budget was ultimately reduced to a figure of \$197.6 million, which indicates that we were really bearing down this year and trying to hold down capital expenditures.

Continuing down the chart, you can readily see which categories have been most affected. In the mimeographed budget you now have in your possession, the first category is called "Road property", estimated at \$170.2 million; and further down the budget appears an item called "Uncompleted works" at \$30 million. During the formation of the 1960 budget it was thought that \$27 million of the uncompleted work would probably occur in the category "Road property" and \$3 million the communications budget. For the purposes of this chart, therefore, \$27 million has been subtracted from the \$170.2 million and, in addition, the communications department \$26 million was removed from "Road property" to provide two new entries, namely, "Road" at \$117.2 million and "Communications" at \$23 million.

Railway officers spent a great deal of time reducing the proposed expenditures in "Road" to what is felt is a minimum in 1960, but after all their efforts you will note that the totals are approximately the same for the two years, \$117.2 million versus \$116 million. I must point out that within this heading there are

SUMMARY OF CAPITAL BUDGET EXPENDITURES 1959 - 1960



a number of large expenditures which are quite inflexible in that they form part of continuing plans or projects and represent work already in progress.

You will, of course, recognize that the consequences of the suspension of work actually in hand delays the attainment of the increased revenues or reduced expenses which originally justified the capital project.

About \$45 million of our 1960 budget represents the amount required to rebuild and improve track structure to compensate for the wear and tear of the track. Another example of a fixed component in the budget is the amount of approximately \$26 million in 1960 on our four major large terminals at Moncton, Montreal, Toronto and Winnipeg.

The remainder of the \$117.2 million covers signals, machinery, crossing protection, new lines, diversions, abandonments, and so on. Therefore, until most of the large programs, such as hump yards, signals and siding extensions are completed, it is difficult to make further reductions in the general heading of "Road". This condition is likely to exist until the Toronto access line and hump yard and the signal program are completed. These two projects have the latest completion dates of all the programs now under way, and by 1965 the strictly railway portion of "Road property" should be down to approximately \$75-\$85 millions.

Mr. DRYSDALE: Did the actual expenditures in 1959 coincide with the capital budget expenditures?

Mr. GORDON: No. I am going to mention that a little later. As a matter of fact, we considerably underspent our budget, for the reason that we started holding down on expenditures commencing July of last year. I will refer to that as I go along.

You will observe an increase of \$4.7 million in the 1960 budget for "Communications". The 1960 capital budget of this department increased over 1959 because we have begun the construction of part of the United States-Alaska microwave system for the United States government. We expect to spend 13.8 million on this project in 1960. The difference between the figure of \$26 million shown for "Communications" on your mimeographed sheets and the \$23 million indicated on the chart is due to a \$3 million reduction in the budget for "Uncompleted works"; that is, we estimate that for a number of reasons—material deliveries, weather, and so on—this department will spend only \$23 million of the planned \$26 million budget.

We have made a \$53.5 million reduction in the amount of money budgeted for equipment purchases in spite of the fact that the 1960 traffic level is forecast to be slightly higher than 1959. We are expecting further improvements in freight car and locomotive utilization to handle the forecast traffic increase. There are 100 diesel units to be delivered in the first half of 1960, and these units, plus the present ownership, will dieselize your railway at existing traffic levels. The completion of this program has had a marked effect on the budget requirements for new equipment. We have a commitment item in the 1960 budget for an additional 40 units, for which commitment authority was previously granted, but these locomotives will be purchased only if traffic should exceed our expectations in the latter part of 1960 or during 1961.

The next two bars illustrate the reduction in the money to be spent in 1960 versus 1959 on *Branch Line Construction*. There are five separate lines involved, but most of the work in 1960 is in the nature of a clean-up, with the exception of the Optic Lake-Chisel Lake line, on which approximately \$1.5 million is to be spent. This line will be basically completed by the end of the year. It is about 52 miles long and runs from a point on the Sherridon subdivision in Manitoba to the Hudson Bay Mining and Smelting development at Chisel lake.

Mr. CHEVRIER: Mr. Gordon, will you be able to give us a detailed statement of the operations of all these branch lines?

Mr. GORDON: Yes.

Mr. CHEVRIER: The financial operations?

Mr. GORDON: Would you like me to give it now?

Mr. CHEVRIER: I do not want to interrupt you, if it is the wish of the committee to go on; but I would like to ask some questions about them.

Mr. GORDON: Perhaps, Mr. Chevrier, if you would make a note of that, I can deal with it later on, without the chart. I take it that your question is along the lines you mentioned in the House the other day?

Mr. CHEVRIER: That is right.

Mr. GORDON: I have some information on that for you.

Mr. BROOME: Mr. Gordon, I should give warning that I will have a number of questions on the subject of the microwave project and communications. I give proper warning of that.

Mr. GORDON: Well, you have not caught me entirely by surprise.

Mr. BROOME: I did not think I would.

Mr. GORDON: Next down we come to the comparison of capital expenditures on hotels. The amount is relatively constant for the two years. The major portion of the 1960 planned expenditure is an amount of \$2.3 million for the extension of the Nova Scotian hotel. The remaining \$1.1 million covers a large number of smaller projects such as T.V. installations at the Nova Scotian, Chateau Laurier and Macdonald hotels.

Perhaps at this point I should interject that we are in a bad spot in regard to the Nova Scotian hotel by reason of strike action. This is holding construction up, and we are having to cancel conventions which booked for May 31. At the moment it is very problematical whether we are going to get the hotel completed in time. It is a very frustrating and exasperating business because strike action against the hotel is illegal in view of the fact that the union agreement affecting the plasterers had been signed by our sub-contractor only a short time ago. However, there is a hodge-podge of interplay with respect to disputes between the union and the contractor. We are the innocent victims. The contractor, The Foundation Maritime Company, is seeking an injunction on the grounds it is an illegal strike. We do not know whether we are going to get the hotel finished in time; if we do not, it is going to be a very bad black eye not only to our hotel, but to the whole tourist industry in the province of Nova Scotia because we will have to cancel these valuable conventions to which we have been committed and which would have brought new traffic into the city of Halifax. Now as to the chart.

The proposed expenditures on affiliated companies have been reduced to \$6.8 million compared with \$17.4 in 1959. The money is to be invested in the Toronto Terminals Railway Company, Northern Alberta Railways, Chicago and Western Indiana Railroad and Canadian National Transportation Limited, which I mentioned earlier.

The last bar indicates the amount of additional working capital which we feel is necessary in 1960. You can see that there was no request in 1959. We feel that this amount is needed largely because \$4.0 million has been tied up during 1959 and because we expect to tie up another \$6.0 million in the construction work on or adjacent to Victoria bridge. This construction work pertains to a diversion which has been necessitated by the St. Lawrence seaway.

The C.N.R. will shortly submit a claim to the St. Lawrence seaway authority for the payment of the expenditures incurred in constructing the diversion and related facilities.

Mr. FRASER: Do you expect to get it?

Mr. GORDON: Certainly, 100 per cent. Our claim is valid, right, legal and moral.

Mr. CHEVRIER: That is what they all say.

Mr. GORDON: I am saying that for the benefit of the Minister of Transport, who has to sit in judgment on it under the agreement.

Mr. CHOWN: How much is it?

Mr. GORDON: Although we have not finished it, it will be probably of the order of \$17 million, or a little more.

Mr. CHEVRIER: Is this the claim which is included in the agreement made between the seaway authority and the C.N.R.?

Mr. GORDON: Yes, that is it. You will remember the understanding was that in order to get on with the work which had to be done—otherwise the whole thing would have been held up—it was decided that a diversion line had to be built in order that the roadway, rail and ship traffic would be uninterrupted.

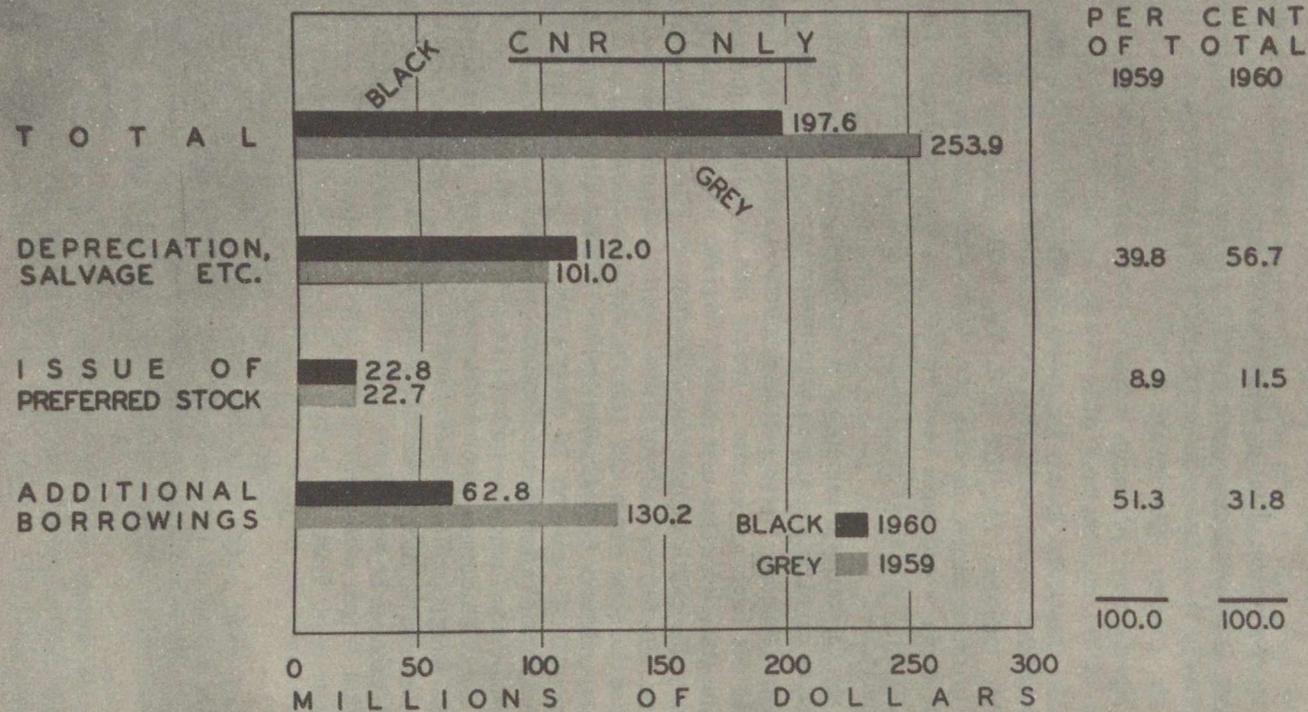
Mr. CHEVRIER: I remember it very well, and I remember your saying that no damn canal was going to take precedence over a railway.

Mr. GORDON: I was not so dogmatic as to say "was going to"; I said it should not have precedence. I would like to make another observation before leaving this slide. Our cash budget for 1960 is \$197.6 million which represents a marked reduction from the 1959 request. However, on the point you were raising, Mr. Drysdale, I would like to tell the committee that in July, 1959, we decided to slow down our rate of capital expenditure and that, as a result, our expenditures for the year totalled \$229.4 million compared with the budget figure of \$253.9 million. In other words, we underspent our budget by \$24.5 million. The \$24.5 million difference between budget and actual in 1959 limited our scope for further reductions in 1960.

Now, gentlemen, that takes care of that particular slide in regard to capital budget.

The next slide, number 12, which you now have before you, is a summary of the sources of capital.

SUMMARY OF CAPITAL BUDGET FINANCING 1959 - 1960



SUMMARY OF CAPITAL BUDGET, 1959-60

This slide shows how we finance the budget and shows in summary form the sources of capital for both the 1959 and 1960 budgets. Once again the black bars illustrate the 1960 quantities while 1959 is in grey. The total funds required are shown at the top and equal the amount of the capital budgets.

Our largest source of capital is depreciation accruals. They include other things such as salvage and so forth, but we call them depreciation accruals.

I should mention here that this general heading is made up of the following items and their individual estimates for 1960 are as follows:

| | |
|-----------------------------|------------------------|
| Depreciation accruals | \$ 89.8 million |
| Salvage | 20.0 million |
| Amortization | 2.2 million |
| Total | \$112.0 million |

The increase of \$11.0 million over the 1959 estimate is the result of a forecast increase in salvage of \$6.7 million, which is due mainly to our steam locomotive scrapping program, and an increase of \$3.5 million in depreciation accruals.

The next source of funds is from the sale of 4 per cent preferred stock, to the extent of 3 per cent of gross revenues. Because there is little difference between the gross revenues in 1959 and those forecast for 1960, the funds from this source are almost constant at approximately \$23 million.

The difference between our capital requirements and the total of the above two sources that I mentioned must be borrowed. Because of the large reduction in the 1960 budget and the slight increase in the depreciation accruals, etc., the estimated borrowing in 1960 has been reduced very sharply from \$130.2 million to \$62.8 million. This is a very desirable trend. As our capital budgets continue to decrease our borrowings will also diminish, so that we should be able to slow the rapid growth of fixed charges.

The next slide, No. 13, indicates the trend of our capital expenditures between 1956 and 1965.

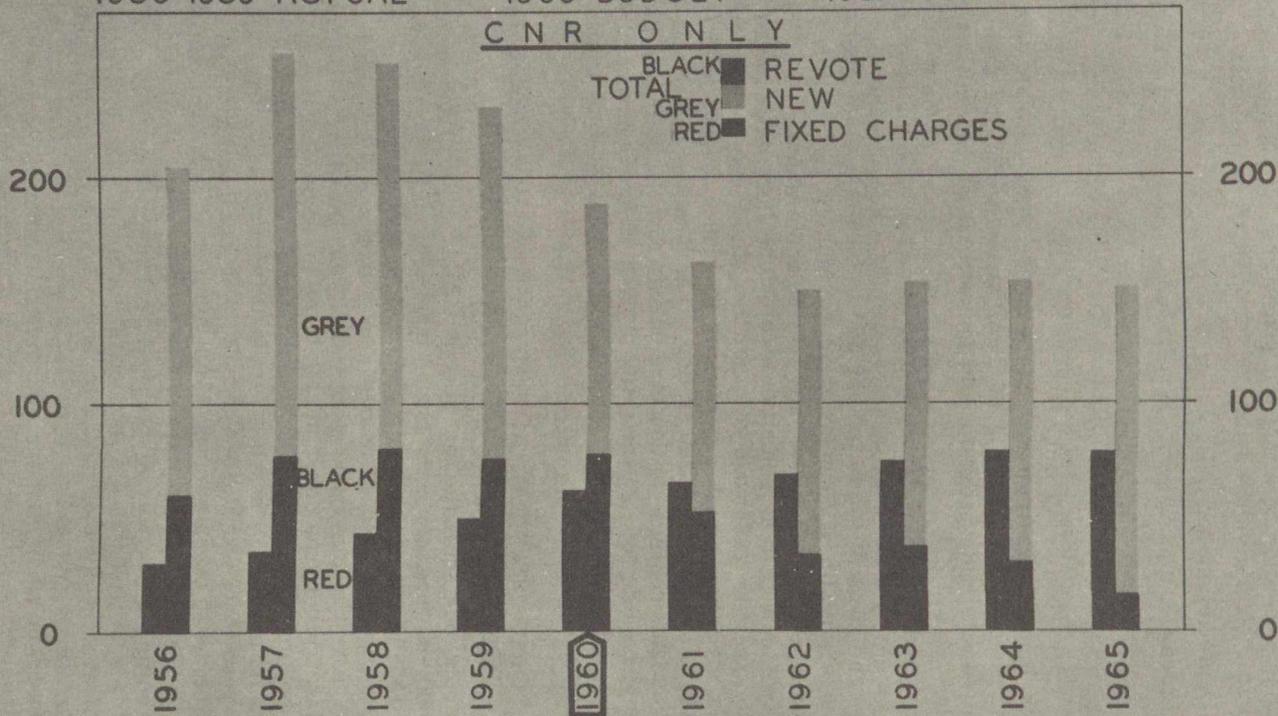
GROSS CAPITAL INVESTMENT-EXPENDITURES 1956-65

Again, this is somewhat of a crystal ball exercise, but we feel fairly confident about our estimates on this particular chart. These estimates of gross capital expenditures cover the period from 1956 to 1965—a ten-year expenditure period. 1956 to 1959 are actuals, 1960 is on a budget basis, and 1961 to 1965 are forecasts. The combined black and grey sections indicate the total expenditure for any year. The black and grey coding was adopted to indicate the relative amounts of revote and new money spent or required in any one year. The revote portion, shown in black, indicates amounts required for work of a program nature which has been previously authorized. This shows that from year to year there is a degree of rigidity in our budget which arises from the fact that most of our programs take a number of years to complete.

Until the bulk of our programs is completed we shall be faced with fairly large committed portions in each year's budget. You will note the reduction in the black portions of the bars commencing in 1961 and extending to 1965. This indicates the completion of a number of programs such as siding extensions, major terminals and C.T.C. between now and 1965. Our capital budget forecasts, based on today's labour and material indices, indicate that our budgets should level off at around \$150 million per year. At this point it will be almost possible to finance them by internal sources of funds and through the sale of preferred stock to the government.

GROSS CAPITAL INVESTMENT EXPENDITURES 1956-1965

IN MILLIONS OF DOLLARS
 1956-1959 ACTUAL 1960 BUDGET 1961-1965 FORECAST



The red bars shown adjacent to each of the budgets will give you an appreciation of the growth of fixed charges for the period 1956 to 1965. You will note that the chart shows an increase of approximately \$13 million between 1959 and 1960. This is not due primarily to the capital programs of 1959 and 1960 and to the borrowing to finance those programs but is rather the effect of refinancing low-interest loans at a much higher interest rate. The increase in interest on these loans is responsible for about \$8 million of the \$13 million increase in fixed charges between 1959 and 1960.

Subsequent slides will illustrate in greater detail the type, programming, costs, and expected completion dates of the major projects now in play. However, at this time I would like to point out the contemplated completion dates of some of our major items in order that you can more easily see how we have been able to decrease the budget forecasts and reduce the revote or black portion of each budget between 1959 and 1965.

Mr. CHEVRIER: I have a question in connection with fixed charges, which are going up all the time. This year it was \$51 million. What is the forecast for 1965?

Mr. GORDON: If we follow through with this program, by 1965 we will have—at today's interest rate—fixed charges of approximately \$78 million.

The programs are as follows:

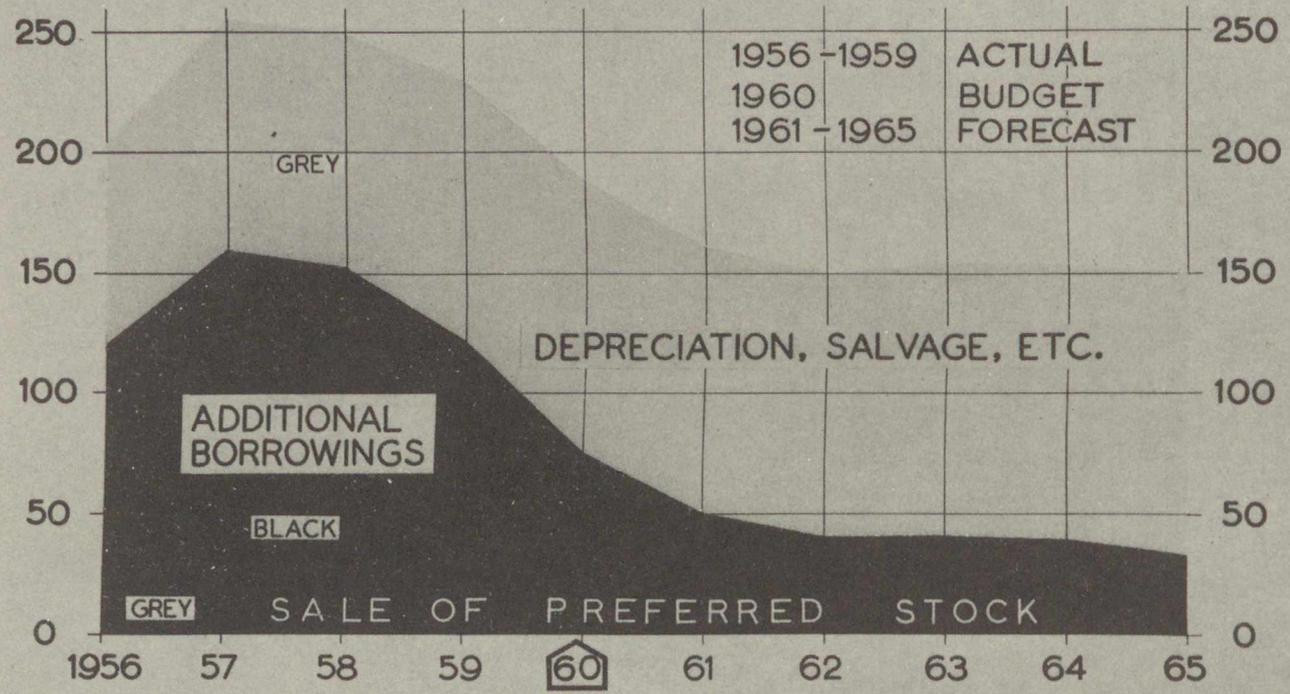
- (i) Dieselization at existing traffic levels should be completed by mid-year 1960.
- (ii) Montreal hump yard should be largely completed before the end of 1960, and in full operation early in 1961.
- (iii) Moncton hump yard should be completed in the fall of 1960 and in full operation by the end of the year.
- (iv) Winnipeg hump yard should be completed early in 1962.
- (v) Toronto hump yard and access line is currently planned for completion by the end of 1964.
- (vi) Expenditures on CTC should continue at approximately \$5 to \$6 million per year up to and including 1965.
- (vii) Western region improvement program and the system siding extension program should be completed in 1961.

The western region improvement program was called into being by reason of the fact that in the western region the lines were distinctly below standard. About six years ago we started on a program involving an expenditure of close to \$60 million in order to bring our western main line up to the standard of the track in the rest of Canada. We have been through six years of that program and it will be mainly completed by 1961.

When making up our 1961-1965 budget forecast, we were interested in the source of funds to finance these budgets, and the next slide, No. 14, will give you an idea of our sources of funds for the ten-year period.

GROSS CAPITAL INVESTMENT FINANCING 1956-1965

IN MILLIONS OF DOLLARS
C N R O N L Y



GROSS CAPITAL INVESTMENT—FINANCING 1956-65

This chart shows our method of financing during the same 10-year period as the previous slide, 1960-1965 being the forecast basis. The colour coding of the various sources of funds illustrates quite dramatically the method of financing our budgets. Borrowings, which reached a maximum in 1957, are being reduced steadily each year until 1962, at which time they are down to approximately \$20 million per year. In 1963 and 1964 they are expected to remain at about this same level, but by 1965 our borrowings should be down to approximately \$10 million. Depreciation accruals, etc. which, as I pointed out earlier include depreciation, salvage and amortization, should increase each year and should provide enough capital to finance an increasing portion of our capital budgets. In 1957, for instance, this source provided \$95.6 million or 37 per cent of our actual expenditures but in 1965 we forecast the amount at \$117 million or 78 per cent of the budget.

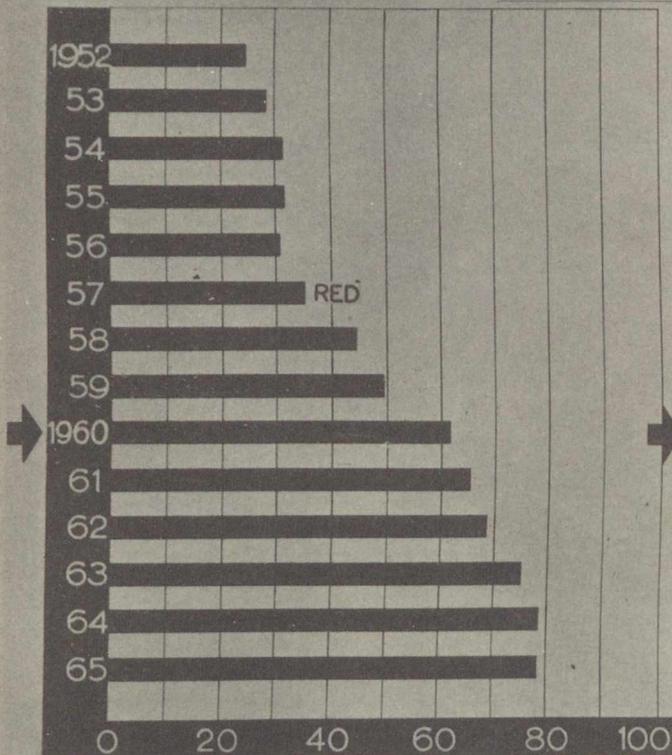
Along the bottom of the chart you will note that the capital provided by the sale of preferred stock to the government is remaining approximately constant between \$22 and \$25 million, and for the purpose of this forecast the present 3 per cent of gross revenues formula is continuing.

This chart illustrates the heavy additional borrowings required for the modernization and rehabilitation of the railroad, and shows that the expenditure rate of the past five years has been far higher than the forecast expenditure for the next five years.

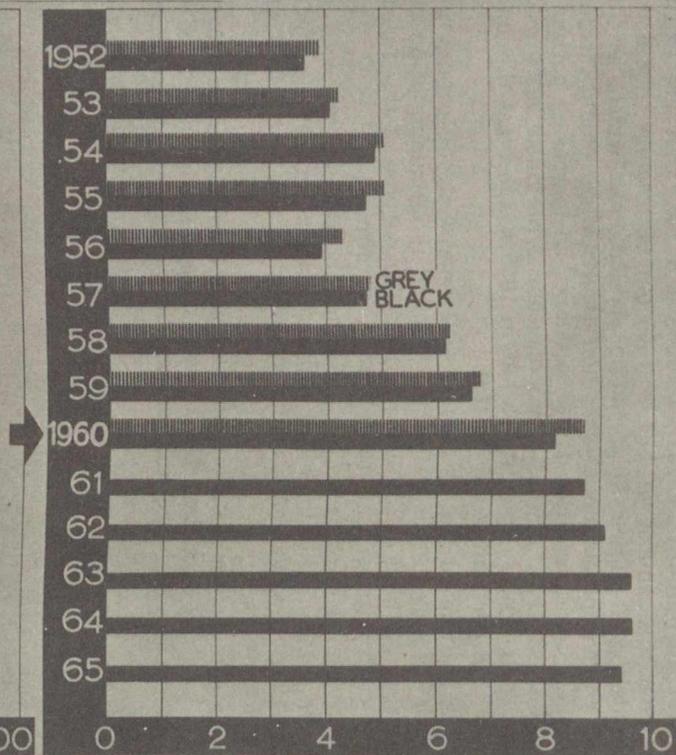
I think it is important to once again look at the effect of these programs on fixed charges, and the next slide, No. 15, will show the growth of fixed charges and their relationship to actual and forecast total revenues and expenses.

FIXED CHARGES 1952 - 1965

C. N. R. ONLY



MILLIONS OF DOLLARS



PER CENT OF OPERATING EXPENSES OF OPERATING REVENUES

FIXED CHARGES, 1952-65

The chart covers the time period from 1952 to 1965 and is on the same basis as the previous charts, that is, actual figures to 1959 and forecasts from 1960 to 1965. The chart begins at 1952 to enable you to observe the growth of fixed charges since recapitalization. In addition to fixed charges in millions of dollars, shown in red, the black bars indicate fixed charges as a percentage of operating revenues and the grey bars as a percentage of operating expenses.

The chart illustrates that fixed charges were \$24.6 million in 1952 and that forecast total is \$78.3 million by 1965. There are some variations which should be explained. You will notice that in 1956 fixed charges decreased slightly. This was due to the retirement and refunding at a lower interest rate of \$67 million of 25-year bonds. Between 1956 and 1959 fixed charges increased approximately \$5 million a year and in 1960 will increase by \$13 million over 1959. As I mentioned previously, on Slide No. 13, the 1960 increase is primarily the effect of heavy refunding during 1959 and early in 1960.

In the forecast of fixed charges we have not included the interest-free \$100 million government loan which was part of the Capital Revision Act of 1952.

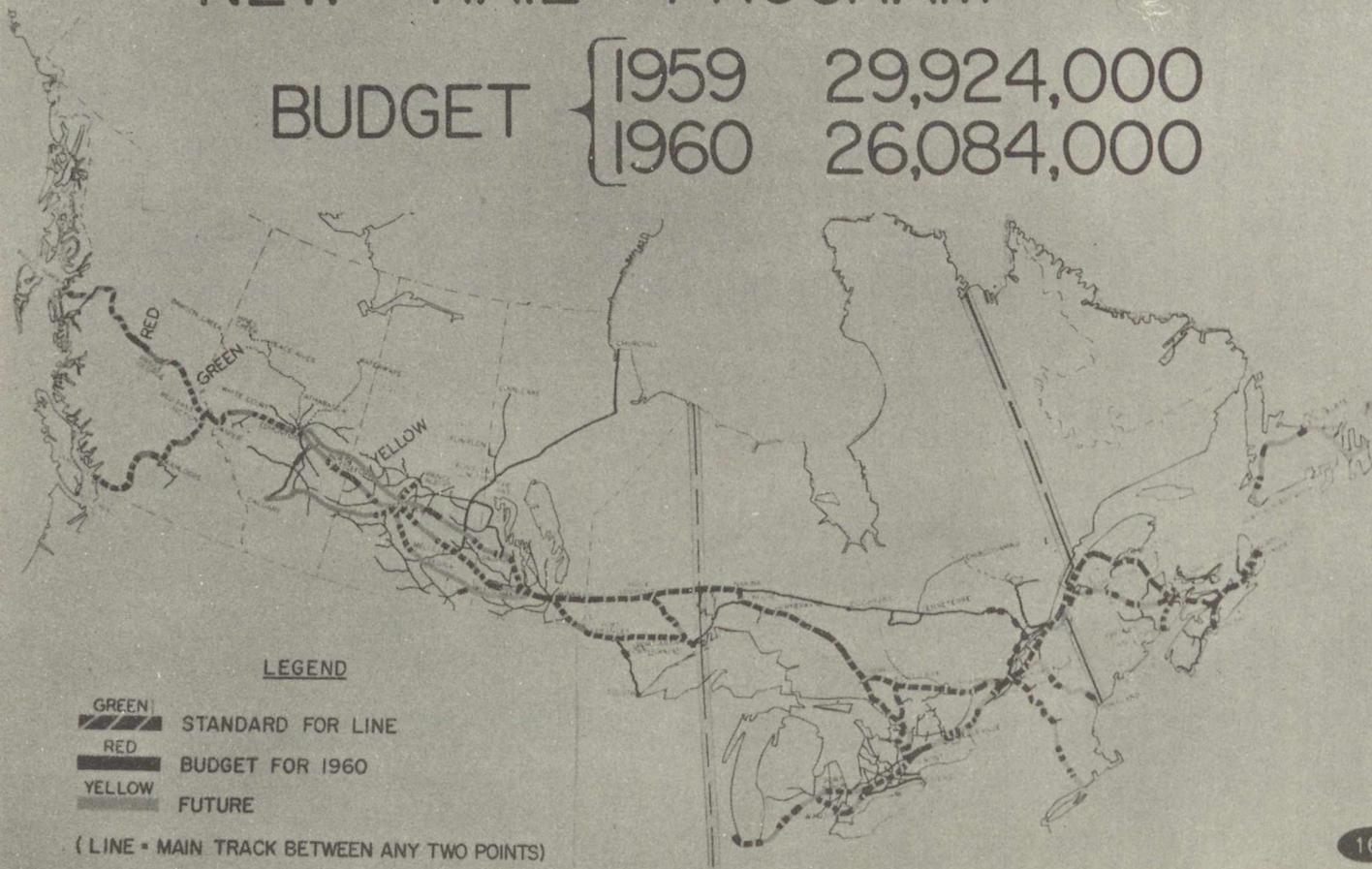
Although our borrowings will be drastically reduced after 1961, there is a large increase in fixed charges between 1961 and 1965. In this period fixed charges will probably increase from \$62.0 to \$78.3 million, that is, by \$16.3 million. Based on our present forecasts, total additional borrowings between 1961 and 1965 will amount to approximately \$90 million which, at an estimated interest rate of 5.5 per cent, will add \$5 million to our fixed charges. The remainder of the increase (16.3-5.0) \$11.3 million is mainly due to refunding of low-interest securities at interest rates close to 6 per cent. Therefore it is apparent that the bulk of the increase of fixed charges that will take place between 1961 and 1965 will be the result of higher interest rates rather than the interest on new borrowings to finance the capital budgets from 1961 to 1965.

We recognize that the fixed charges are exceedingly high, and in order to put them into perspective, they have been related to revenues, the black bars, and expenses, the grey bars. In 1952 fixed charges were 3.6 per cent of total revenues, in 1960 they are 8.2 per cent of budgeted revenues and by 1965 will probably be approximately 10 per cent of total revenues. This then is the effect of two factors, the magnitude of the modernization and rehabilitation of the railway and the higher interest rates for borrowed capital.

In the next series of charts we give you some highlights of our capital investment program. The charts will be presented in about the same sequence as the categories under "Road Property" in the mimeographed budget, Chart No. 16, the new rail program is next.

NEW RAIL PROGRAM (DOLLARS)

| | | | |
|--------|---|------|------------|
| BUDGET | { | 1959 | 29,924,000 |
| | | 1960 | 26,084,000 |



LEGEND

- STANDARD FOR LINE
- BUDGET FOR 1960
- FUTURE

(LINE - MAIN TRACK BETWEEN ANY TWO POINTS)

NEW RAIL PROGRAM

In 1959, 781 miles of new rail were laid. The budget for 1960 is approximately 13 per cent lower than last year and provides for 688 track miles. The extent of the program for 1960 is governed by the economic conditions I referred to when the charts on the summaries of capital budgets were on the screen.

This map shows, in different colours, those lines which must be considered as part of the new rail program. Those lines coloured green are, in our opinion, currently up to standard, having been relaid in recent years; the red shows the lines on which we plan to place new rail during 1960; and yellow depicts those lines which, while adequate under present traffic conditions, will require future expenditures. It must be borne in mind that each year life is taken out of the rail in the track because of traffic and weather and therefore each year new sections will appear as yellow on the map and, of course, some of the yellow will become green upon completion of the year's program. We have estimated that to keep up with the average loss in service life each year, our annual new rail program should cover between 620 and 660 miles of track.

Between 1940 and 1953, because of a shortage of steel for the manufacture of rails, we were unable to keep up with this program and, as a result, we incurred a large backlog of deferred maintenance. At one time, this backlog had reached a total of over 1,300 miles of track. Our larger rail programs in recent years have reduced this backlog. The amount of yellow on the map includes not only the backlog that still exists, but, as I mentioned before, other lines which we now feel must be considered for relay that is relay of rail in the near future.

Rail life and the weight of rail required on each particular subdivision is governed by such factors as volume of traffic, train speeds, axle loads, curvature, etc. Our standard rail is about 39 feet long, although we have been welding these standard lengths into much longer lengths for certain sections of our main line for our new automatic hump classification yards. Various weights of new rail are used; the most common being 100 pounds per yard, 115 pounds per yard and 132 pounds per yard. Average cost for the system in 1959 for new rail and fastenings installed was about \$42,000 per track mile.

Throughout our annual replacement programs we have taken advantage of improvements in the design of rail and fastenings, which usually involve increased weight of the rail section, to strengthen the track structure and to provide adequate support for the heavier loadings and higher operating speeds. Furthermore, the heavier rail section will allow us to reduce maintenance costs.

The rail program then is a major item in our budget, and is a continuous program for the reasons I have mentioned. In addition to the program of new rail we must make further provision for the laying of part-worn rail on the less important lines, and the total cost of this work in 1960 will amount to about \$7.4 million, which is about \$2 million less than the last year. Provision of similar amounts each year must be included in any long-range capital budget.

Now, this is one of the important items in any railway budget and you will understand that as we put new rail into our important main lines we pick up the used rail and relay on less important lines. There is a steady downgrading so to speak from the main line. The next chart, #17 is a map showing the location of the terminal improvement program.

LARGE TERMINALS

You will see at the top the budget figure of \$25,930,700 for 1959 and \$27,034,000 for 1960.

This map shows in colored circles the yards included in our large terminal program. The size or area of the circle reflects the estimated cost of each project. The total cost is shown in millions of dollars beside each circle. You will note that each circle has been divided into several colors. *Green* represents the part of the project that has been completed, *red* is the amount to be spent in 1960, and *yellow* shows the amount to be spent in future years to complete the project.

The four large circles, at Moncton, Montreal, Toronto and Winnipeg, show the location relative to our rail network of the major automatic hump classification yards.

A little later Mr. Dingle is going to show you the operation of a hump classification yard so that you will know better what we are talking about.

These four yards when completed will perform the bulk of train marshalling across the System. They are being equipped with the latest developments in: retarders (braking devices), electronic data processing and transmittal equipment, maintenance shops and facilities etc.

Moncton and Montreal are expected to be operational this year, Winnipeg in 1961, and Toronto is still some years off.

The smaller circles represent work on the smaller terminals which are required to handle local business and as support to the new hump yards.

Including the cost of the Toronto access line, the total cost of the work on the Terminals shown on the map is about \$185 million. Of this amount \$55.7 million has already been spent, we plan to spend \$32.5 million in 1960 (including \$6.6 million for the Toronto access line) leaving some \$97.0 million to be spent to complete this program in future years.

I think we are ready for the next 2 slides which are photographs of yards and will be described in some detail by Mr. Dingle.

LARGE TERMINALS



7A

MONTREAL HUMP YARD

Mr. GORDON: This is an aerial photograph of the new Montreal yard as it now stands.

Mr. DINGLE: This photograph is taken from the south and shows the complete yard which covers an area of 843 acres of land. It is made up of 160 miles of track, and will employ modern electronics, television, radio, and the latest types of communication systems to sort out a daily influx of up to 7,000 freight cars and link them into trains. The yard will have a standing capacity of some 10,000 cars with provisions for future expansion as may be required. The Montreal yard will take the place of the present Turcot yard in Montreal as well as other local yards in the area.

The yard is made up of the main classification yards—two for handling through traffic, and one for local traffic—giving a total of 120 classification tracks. On either side of the classification tracks are located receiving and departure tracks—I will show you these later—and in addition, car cleaning and car repair tracks, plus icing and storage tracks, making up a total of some 150 yard tracks in all.

The yard will also have a modern diesel locomotive servicing layout which can be clearly seen in the center of this picture.

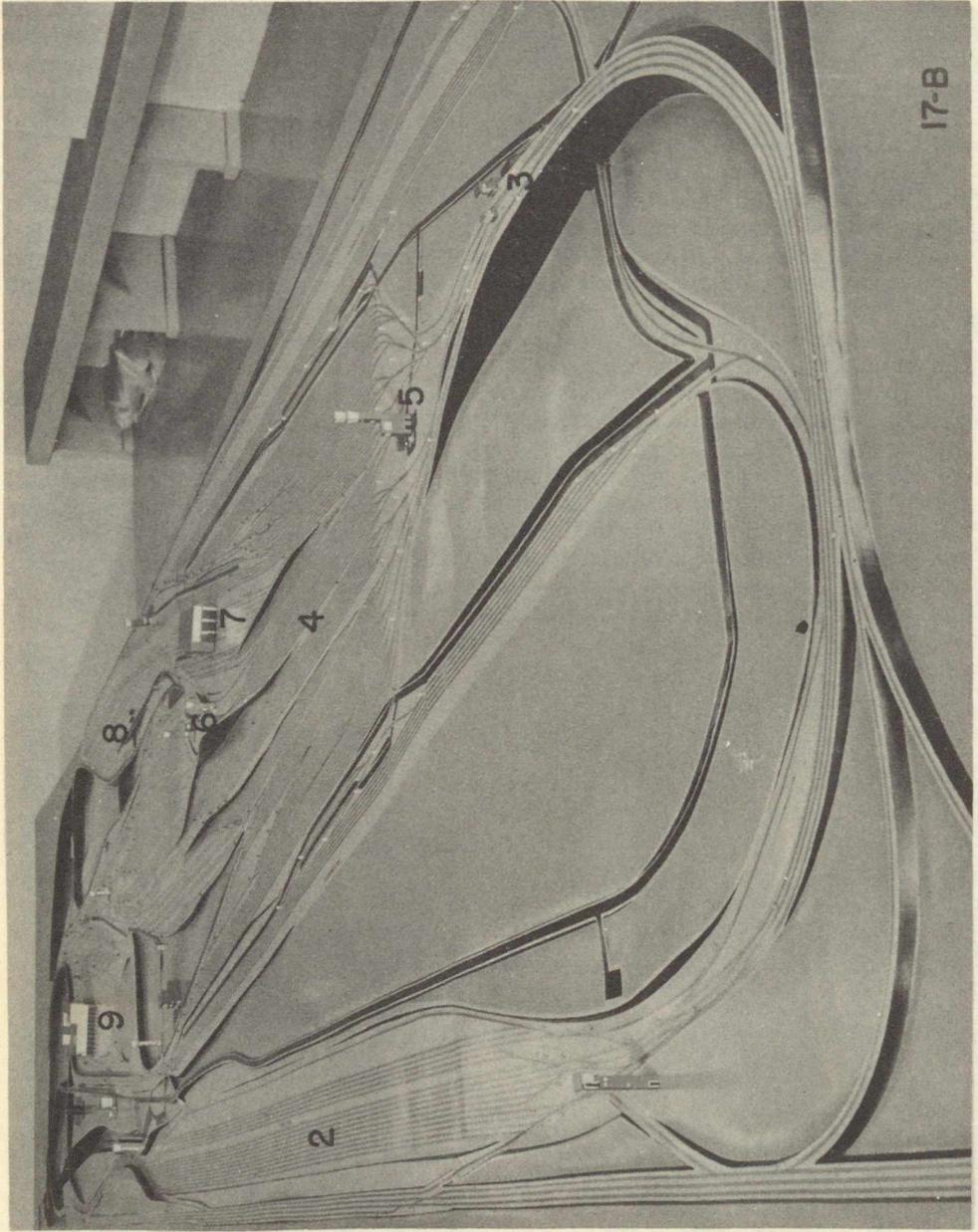
To understand how the yard will operate it is necessary to follow the various steps taken as a train approaches Montreal, and cars proceed through the yard:

As a train moves towards Montreal, the personnel at the yard will receive by I.B.M. transceiver, information telling them such things as car numbers, contents, and the destination of each car in the train. The train passes and is scanned by T.V. cameras as it enters the receiving yard (figure 1) as shown on the next slide, 17-B. This picture is the reverse to the previous one, as this one is from the north or upper end of the yard.

MONTREAL HUMP YARD

Mr. Gordon: This is an aerial photograph of the new Montreal yard as it now stands.

Mr. Dineen: This photograph is taken from the south and shows the complete yard which covers an area of 843 acres of land. It is made up of 180



17-B

While car inspectors examine the train for defects, the yard office determines from the closed circuit television screen where each car is located in the train. A list is quickly prepared which shows on which classification track each car is to be placed. The train is then shoved from the receiving yard (figure 2) to the hump (figure 3), the heart of the yard, where electronics take over from man in assuming charge of free-rolling cars. The hump is a man-made hill, with an average grade of 3.5 percent over which the cars are pushed, one at a time, travelling by their own momentum to their designated track in the classification yards (figure 4).

Two trains can be humped at one time with a third standing in place for humping. Local cars are humped a second time over the local classification hump (figure 6) for further classification depending upon destinations within the Montreal area. The cars after being classified are then pulled from the classification yards and placed in the departure yards, and trains so made up leave from these yards as required.

Presiding over the yard (figure 3) is the hump foreman, who receives information on each car by teletype from the yard office; he thus knows where each car must go in the classification yards and accordingly directs it to the correct track by simply pressing a button. Once the car begins its descent, an electronic brain goes into action to control its speed so that it will reach the designated point on the classification track at just the right speed for a gentle coupling. No two cars roll at exactly the same speed. Such factors as weight, weather and car rolling resistance on the track influence the speed. The "brain", or computer, automatically gathers and digests all factors governing the car's speed, as well as calculating how far the car must roll to its coupling point. To reduce the speed of the car, retarders on the track (figure 5) resembling huge steel jaws, squeeze against the sides of the wheels. Incidentally there is a picture of that retarder in the annual report. Therefore, from the moment a car leaves the crest of the hump and comes to rest in the classification yard its progress is controlled automatically. The building shown at figure 5 is the main retarder tower housing the yardmaster, retarder operators, etc.

Number 7, shows the car repair yard; 8 the car cleaning yard; and 9, the diesel locomotive servicing layout. When completed, this yard will not only be the largest in the world but the most technologically advanced in existence.

Mr. CHEVRIER: May I ask where the cars leave the main line of the C.N.R. to enter the hump yard and where they go back on to the main line?

Mr. DINGLE: Yes sir, I think we can see that better from the previous slide, 17-A. The Canadian Pacific line runs over that overpass at the bottom of the picture. Our main line is just below that, where you see the shape of a "Y". The cars enter from the east or west. From the north they enter from the upper side along the righthand side of the picture, reach this end of the yard, at the bottom of slide 17-A, and go back to the receiving yard that I pointed out in the other slide.

Mr. BROOME: Is there any thought of using facilities like this jointly with the C.P.R. and charging them for the use of such facilities? This is in Montreal. They have traffic there, and you have traffic, and it seems rather senseless to duplicate something like this. Is there any of this in cooperation to save costs on both sides contemplated in any of those major projects?

Mr. GORDON: No, it will not work. We have had that examined very carefully, particularly with regard to our Toronto project, as well as Montreal. By the time you get the problem of sorting out different railways' mix of cars you would have a more expensive proposition than each one having its own yard. The Canadian Pacific railways yard is just to the right of ours. I am not sure you can see it there—yes, it is right there on plate 17-A.

Mr. BROOME: Couldn't they go over the same hump, and the electronic brain push it down to their yard?

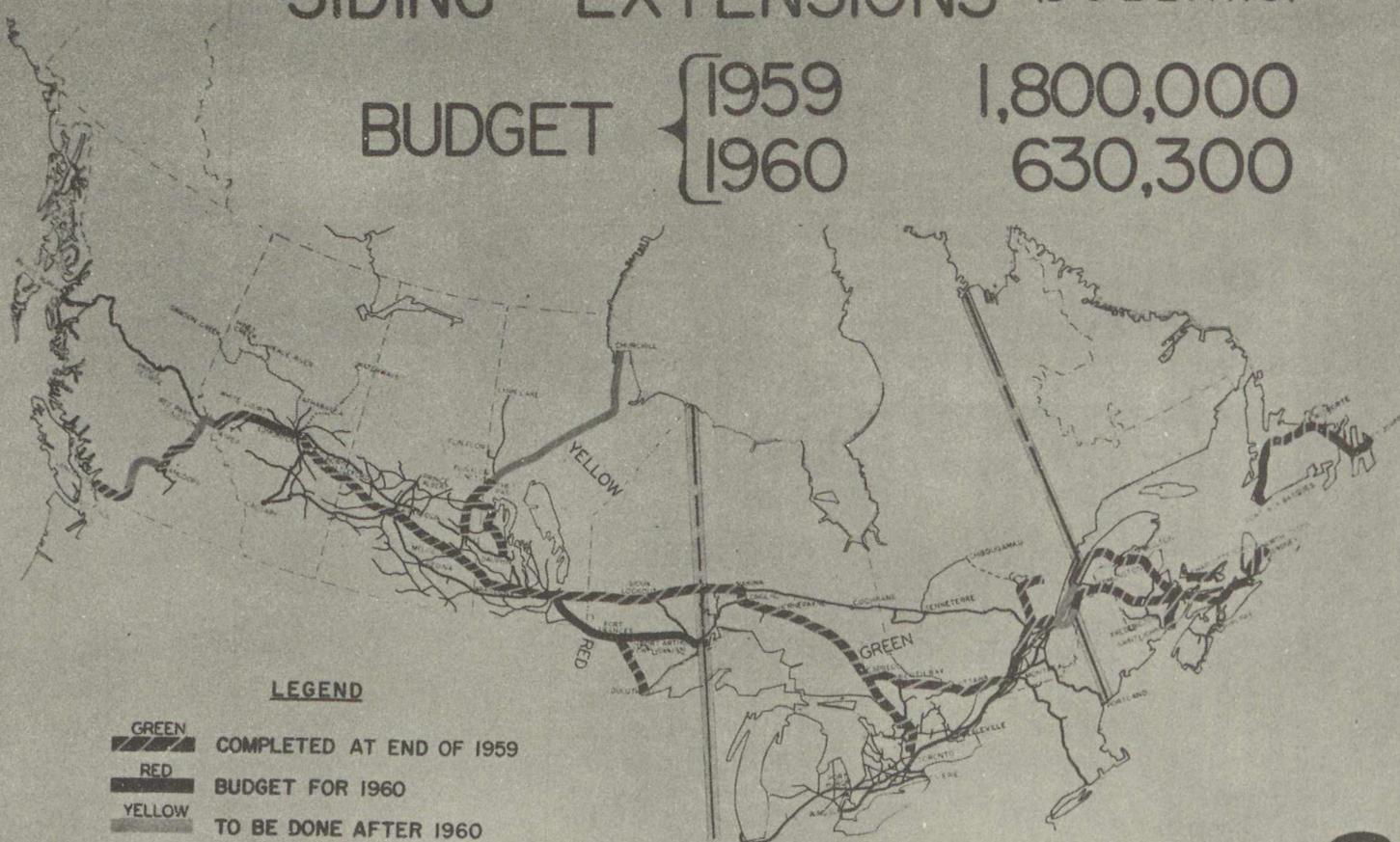
Mr. GORDON: No, it will not work that way. The mix up of the trains would be such that it would be more expensive to provide for it. One of Canada's greatest achievements—which is probably not thought about too much—lies in the fact that we have had the amalgamation of many railroads into the Canadian National system. The result is that we now only have two great main railways. On a comparative basis if you go down to Chicago you will find over 30 individual yards for individual railways. So we have already achieved a large measure of coordination.

I want to tell the members of the committee, Mr. Chairman, that as Mr. Dingle said that the yard in Montreal will not only be the largest in the world but the most technologically advanced in existence. I was doing a little bragging along that line in Winnipeg to a cross-section of a public audience and I was describing the yards and the retarders, and how they handled the cars. I described the yard as the latest thing in the world. I said that the cars and impact were so held down by the new retarders that instead of a great shock they would advance, kiss and couple. Whereupon a lady in the audience said: "Why, Mr. Gordon, we have been doing that in Winnipeg for years". There is nothing new under the sun, you see.

Mr. CHOWN: Not in Winnipeg!

SIDING EXTENSIONS (DOLLARS)

BUDGET { 1959 1,800,000
1960 630,300



LEGEND

- GREEN COMPLETED AT END OF 1959
- RED BUDGET FOR 1960
- YELLOW TO BE DONE AFTER 1960

SIDING EXTENSIONS

Once again we have used a map to illustrate how our siding extension program is planned on our network of rail lines.

On single track—and we have very little double track on the C.N.R.—trains meet or pass each other at passing tracks or sidings, as they are often called. In order to achieve the maximum benefit of diesel motive power, we must run longer freight trains than was practicable with the steam engine. Therefore, we have had to embark on a sizeable program of extending certain sidings to accommodate these longer trains. You will see by the colored sections of the map that we have now completed many of the main traffic routes—the completed territories are colored green—and the 1960 work, colored red, will complete some of the gaps that still exist. The portions of the map colored yellow show the lines on which sidings will be extended in the future.

To the end of 1959 we had extended almost 400 sidings, which serve some 6,000 miles of track, at a cost of \$6.8 million. The 1960 budget provides for extension of another 32 sidings on 9 subdivisions.

The total budget figure is shown there at \$630,300.

I mentioned that we were extending certain sidings only, mainly because of three factors:

- 1) higher running speeds, resulting from improved track and diesel motive power;
- 2) fewer but longer freight trains;
- 3) improved signalling techniques to govern train movements.

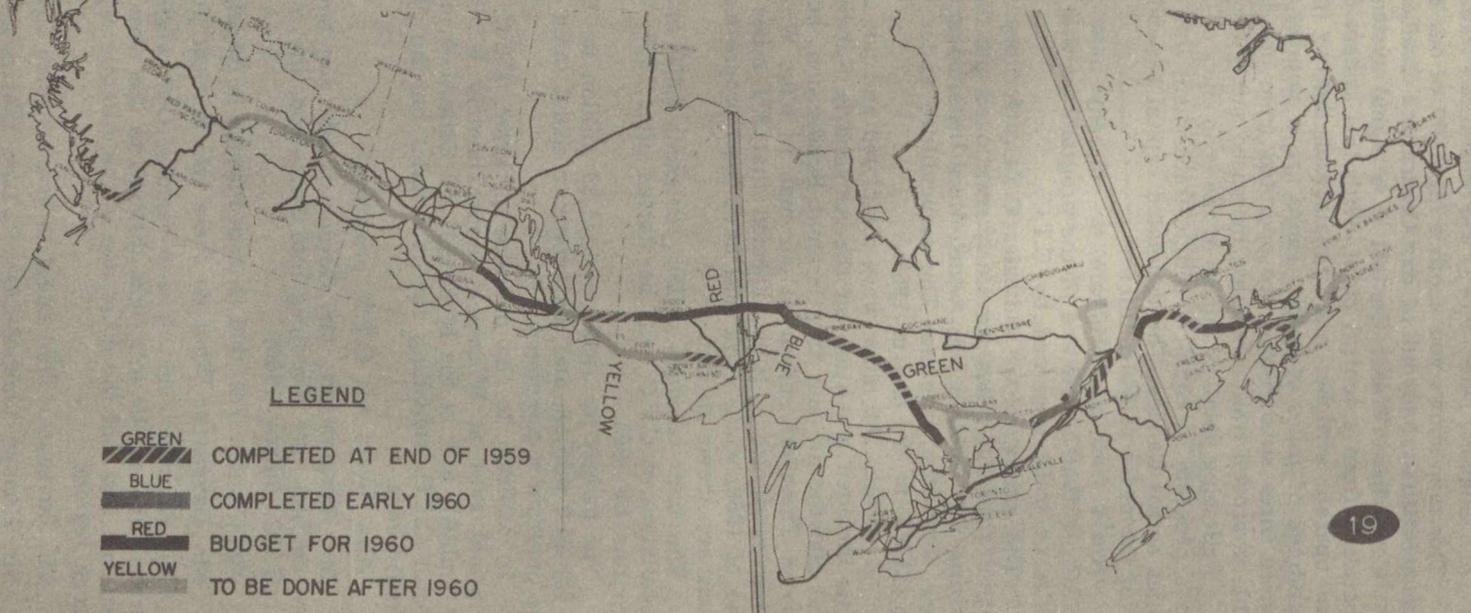
In some areas the new long sidings are 12 to 15 miles apart compared to the original spacing of 7 or 8 miles.

We have settled on different siding lengths for the various main traffic routes. And that was following an intensive study of our traffic density. For instance, between Toronto and Winnipeg and Montreal and Winnipeg the new sidings will accommodate 100 car trains, from Winnipeg to Edmonton 117 cars.

Now slide No. 19.

C.T.C. PROGRAM (DOLLARS)

| | | |
|--------|------|-----------|
| BUDGET | 1959 | 7,047,000 |
| | 1960 | 5,934,000 |



C.T.C. PROGRAM

Mr. GORDON: Now, here is the centralized traffic control program, slide 19.

This map shows you another highlight of our capital investment program, the geographical layout of our Centralized Traffic Control program.

Centralized Traffic Control is a signal system for the control of train operation from a central point. With this system one man at a central panel can operate switches and signals and thereby control train operation for hundreds of miles of track. There are a number of locations on the C.N.R. where three subdivisions are operated from one location. C.T.C. makes possible improved train schedules, increased safety and more economic operations.

Following detailed studies of the economics of C.T.C., the C.N.R. embarked on a program to equip 40 single-track main line subdivisions or some 4,400 miles across Canada. The estimated capital expenditure for this improvement is of the order of \$40 million.

Apart from the program, we already have in operation 700 miles of C.T.C., so that by the end of the program we will have a total of about 5,100 miles of track governed by C.T.C.

The green colour indicates C.T.C. territory at the end of 1959. This includes the 700 miles previously mentioned and the 499 miles of C.T.C., comprising four subdivisions, which were installed and put in service under the new signalling program. The expenditure under this program amounted to \$6,421,000 to the end of 1959.

A further 205 miles were completed and put in service in January, 1960. This included a portion on the Alexandria Subdivision, between Alexandria and Hawthorne, and the Caramat Subdivision, between Nakina and Hornepayne. These are shown on our map in blue. Work has commenced on four other subdivisions. It is expected that 631 miles will be completed at the end of 1960, while work will have been progressed on 333 miles. These portions are shown in red.

The lines coloured yellow represent 2,800 miles of track on which the installation of C.T.C. will be started after 1960. We expect to complete the program by 1965.

The budget for 1959 provided \$7 million for this work. The 1960 budget is for \$5.9 million, and we expect to spend some \$6.0 million annually until the program is completed.

In addition to the mainline program, C.T.C. is now in service in the terminal area at Winnipeg (approximately 9 miles), in Oakville, Ontario (4½ miles), and in the Montreal and Ottawa terminals. It is also planned to install C.T.C. signalling for 17.6 miles on the Mount Royal and Montfort Subdivisions.

That covers our C.T.C. program.

Mr. BENEDICKSON: Mr. Gordon, would you name the terminals there on the red line, like Winnipeg into Saskatoon, the terminals you have in mind for C.T.C. during 1960?

Mr. DINGLE: Yes, that is from Portage la Prairie right through to Melville.

Mr. DRYSDALE: What do these two vertical lines indicate?

Mr. GORDON: That is our regions. Our western region runs from the vertical line on the left right through to the west. The central region is the next one east and the other one is the Atlantic region. These are our supervisory regions.

Mr. DRYSDALE: That ought to give us some economy on the west coast.

Mr. HORNER (*Jasper-Edson*): Does that mean the uncoloured lines will not have C.T.C.?

Mr. DINGLE: The black line from Jasper to Port Mann has automatic block symbols and C.T.C. beyond to Vancouver.

Mr. GORDON: It will be all signal territory.

Mr. FISHER: Mr. Gordon, does this mean that by the change in the spring of 1961 you will be able to make the kind of changes you are thinking of all the way from Capreol to Melville?

Mr. GORDON: There will be change, yes.

Mr. FISHER: But you would be in a position to make them, judging by what we see here all the way to Melville?

Mr. GORDON: That is our program, yes.

Mr. FISHER: This is a further indication that the Sioux Lookout problem is just a precursor?

Mr. GORDON: That is right.

The CHAIRMAN: Gentlemen, is it your desire that we should adjourn at 12:30? I don't know how much more of this Mr. Gordon can stand at this particular time.

Mr. GORDON: If you would not mind my making a suggestion. The next chart finishes up the C.T.C. and if you would let us deal with that I think then it would be a very appropriate time to break.

C.T.C. CONTROL PANEL

Mr. DINGLE: This is a photograph of a C.T.C. control panel, with train dispatcher sitting at the panel.

Centralized traffic control, or as we know it, C.T.C., is a system whereby trains are operated completely through remote control of signals and switches by electricity from a central control point where the dispatcher sees the track in miniature before him on this control panel. Lights on the panel show the location and progress of all trains at all times. By pushing buttons and turning levers the dispatcher directs the movement of trains over distances ranging from a few miles to as many as several hundred miles. C.T.C. makes possible closer "meets" between opposing trains, and faster "run-arounds" of slower trains by speedier ones. Controls are so devised and interlocked that it is impossible to set up conflicting train movements.

The panel of the control machine in front of the train dispatcher, as shown on the screen, has a complete diagram of all the track layout. Small lights appear on this diagram to indicate the position and progress of each train.

Immediately below the track circuit diagram on the panel there is a signal control lever and a switch control lever for each siding. These signal levers are applicable to either direction. As an example, the signal lever is normal when in a vertical position, and to line up a route for a westward train the lever would be turned to the left. To direct the train into a siding for an opposing train, the switch lever immediately below the signal lever would be placed in reverse position. This provides a signal to the westward train to reduce speed sufficiently for entry into the siding. The signal to the eastward train would hold that train at the eastward switch until the opposing train is clear and the route restored to the eastward train by the dispatcher.

Below these levers there is a "start" button which must be pressed for the machine to actuate the set-up prepared by the train dispatcher. The machine will not accept any contradictory set-up between trains.

Most machines have automatic time devices by which the passage of trains at certain points is indicated audibly. In addition, automatic pens register train times on a paper graph located on the desk of the control panel. All of this is in addition to the light on the panel indicating the location of the train.

There are telephone facilities at all sidings to provide communication between train crews and the train dispatcher. Signal maintainers are located at strategic points and they too have telephone communication with the dispatcher.

The CHAIRMAN: Now, gentlemen, if it is your wish, we will adjourn at this time, and will meet again at 3.30 or immediately following the orders of the day, whichever comes first.

—The committee took recess.

AFTERNOON SESSION

TUESDAY,
March 29, 1960,
3:30 p.m.

The CHAIRMAN: Gentlemen, we will proceed.

Mr. DRYSDALE: Mr. Chairman, I am wondering before we start if we could detract from the status of this morning. In reference to the charts being shown, would you permit me to ask specific questions on the general makeup of the charts? I had originally understood there would be a good possibility that these charts would be made available to us. Now, we do not have either

Mr. Gordon's report or the specific charts to compare with one another. I wonder if we might, keeping it relevant to these charts before us, make any comments on the background from which the statistical evidence was prepared? I may say that is one general criticism. Throughout there has been no identification of the source, as to whether it is the Dominion Bureau of Statistics, or what is the specific reference. I feel, for example, we should be permitted to ask in respect of any individual chart anything we do not understand on the subject of statistics.

Mr. CHEVRIER: I suppose there are several methods by which we could proceed. There is the one suggested by Mr. Drysdale, or the statement made by Mr. Gordon, or the report page by page. I think it is rather difficult to start asking questions on the charts when we do not have them before us. That brings us to the other point, as to whether we want to consider this report page by page or consider the main headings brought to our attention by Mr. Gordon. I think the committee should decide on one method so that we might make some progress.

Mr. DRYSDALE: There is no change in the method I am suggesting. It is just a matter of the specific charts being before us. We were told to keep our questions until the end. My questions are piling up and most of them could be disposed of at the time fairly quickly. I think they could be dealt with at the time.

Mr. CHOWN: This is a point of order which might well have been raised quite a bit earlier in the proceedings. When the screening is done I have a feeling it might be arranged that the cardboard charts Mr. Gordon brought along could be strung across the room here and clipped to a string. In that way they would all be before the committee, and if any questions arise when we come to consideration of those charts they would be there in front of us consecutively numbered.

Mr. DRYSDALE: Mr. Chairman, there are two matters; one is as to what the charts are intended to show, and the second is as to the statistical information presented by the charts and the source of the material. That is the type of question I am primarily interested in.

The CHAIRMAN: What do you mean by the source of the information? I thought Mr. Gordon had explained at the beginning that he had his technical staff work on these. I do not think there is any doubt about the authenticity of the findings.

Mr. DRYSDALE: There is no doubt about it. However, in chart No. 2, for example, inter-city revenue ton-miles freight-Canada, I was wondering what were the sources, where he got each of the individual figures and whether or not they are D.B.S. figures. There is, for instance, one classification headed "other railroads". Does that include provincial lines? I think it is important to know what is the basis of this particular information?

The CHAIRMAN: I think this is elementary.

Mr. DRYSDALE: If it is elementary it should be on the chart.

Mr. GORDON: Mr. Chairman, I would like to remind the committee that what we are doing here is an experiment at the moment. It is an experiment which has to do with my form of presentation to the committee. I have charts which I have told you are charts which are produced by our statistical and economics branch. These are the charts I work from. What I am trying to show the committee is how the management of the railway surveys these matters and arrives at conclusions. I am quite frank to say that I start with the assumption that the charts produced for me by my technical staff are correct. I do not take time to query them or ask how on earth they are made up, because I have to assume my technical staff is competent and produces for me the facts of

the case. I can quite see Mr. Drysdale's point. But it really boils down to how much time the committee wants to spend on this. The point I want to make particularly is that I must reserve the right, I think, on behalf of any president of the C.N.R. that when the president is making a presentation he has the right to decide himself how to make it. I want to make the presentation in the form in which I think it will provide the best information to the committee. Therefore, I was hoping you would allow me to go through it in my own way, and then I would be more than gratified to have suggestions from the committee, or requests from the committee, as to what they would like to have. My whole purpose here is to give you as much information as I can; but I cannot undertake to meet every point of view as to how the presentation shall be made, because I am sure there would be half a dozen ideas as to how best to make that presentation. I think I have to suggest to you that it must be my decision on the basis of being a witness that I will give you such information as I think is appropriate and reply to any questions on the set-up and general background under which we are operating.

My concern about your particular question, Mr. Drysdale, is very simple; it can be answered very quickly. However, if we start answering questions like that I assume that each member of the committee will have his own particular style of approach to it. I was hoping I would be permitted to complete the presentation, and then I thought perhaps on the basis of the notes you have made we might devise a procedure which might be of guidance to us in future years. I do not know the procedure here or what are the rules, but from what I have observed I think the members are very jealous of their rights; and if any member is going to ask questions, then all of you have the same right.

Mr. DRYSDALE: I should say first of all there is no criticism of the form of presentation. I am delighted to see what you have done so far. My only criticism is basic in so far as the statistical information is concerned. You are probably quite satisfied with where you get the information on the charts. In respect of some of them I do not know where they got the information and I am interested in finding out.

Mr. GORDON: That might be something we could take in hand for future discussion. I do not think it would be too difficult to show it on the chart.

Mr. SMITH (*Simcoe North*): I think Mr. Gordon should be allowed to continue, because these are just graphic examples of what he is giving in general evidence.

Mr. DRYSDALE: What good is it if we do not have the source?

Mr. GORDON: The source is the Canadian National Railways.

Mr. SMITH (*Simcoe North*): Let us get on with it. My suggestion is that they have it from their own statistical department, and it would be obvious. Let them get on with it.

Mr. BROWNE (*Vancouver-Kingsway*): The Canadian National railways is a very significant organization. It is a big organization in the transportation field of Canada.

Many members of this committee are members also of the committee on railways, canals and telegraph lines, and they have an interest in transportation problems in general.

A good deal of the information we obtain in this committee is not going to be used only here. It will be made available to the general public, and there will be many times when that information will be made use of. Therefore if it is to be of value, it must be attributed to its sources. It seems to me that a lot of this information must have been derived from the Dominion Bureau of Statistics, and I think it would be very helpful to the committee if we had a reference to the papers and to the Dominion Bureau of Statistics,

because I think it would help us when we come to deal with other matters of transportation, not just with the C.N.R.

The CHAIRMAN: It seems to me that we have to take the figures provided by the Canadian National Railways in their own presentation. Whether they get them jointly through the provinces or the municipalities, or combine them with the Dominion Bureau of Statistics or whatever it may be, is something else again. I recall in an election campaign one time when the late George Spotten came out with a great big armful of campaign literature and laid it on the desk. I said: "What are you going to do with that; you usually do not use notes". And he said: "I know, but every time I hit that with my fist, the crowd will know that it is authoritative; they will know that I have it in the papers, and that I got it from Ottawa."

I think we have to accept the figures as they are, unless the committee as a whole doubts them.

Mr. DRYSDALE: It is not a question of doubting the figures at all. It is only that any chart is merely an indication of the material on which it is based. I want to see what this basic material is so that I may assess for myself how accurately that chart represents the material from which it has been taken. I do not know whether it was taken from a sample, or across the country, or how it was arrived at, whether from estimates of the Dominion Bureau of Statistics or from the Canadian National Railways own statistical department. It does not mean anything unless you know the background information it was premised upon. That is all I am trying to get at.

Mr. CHEVRIER: If we are going to follow that manner of procedure, I suggest it would apply equally to pages 27 on, to the financial and statistical statements of the Canadian National Railways. Where do these statements come from? How have they been compiled? I think if we are going to spend an hour or more going into the sources of the figures in this chart, then I think it would apply to the rest of the report, or to at least two-thirds of it. We have spent a great deal of time already, and it seems to me that this method of presentation is new, and excellent, and I am sure it is one appreciated by the members.

It was brought forward to show some of the difficulties that the Canadian National Railways and other railways have. If we are going to challenge the president and his officers on the sources of these figures, then I am sure we are going to have to spend far more time on this than we should.

I would like to ask some questions on page seven of the report, or on the notes that Mr. Gordon has given. However, I shall defer to the majority of the committee.

Mr. FRASER: Mr. Gordon has not yet finished his report, has he?

The CHAIRMAN: No.

Mr. FRASER: Do you not think we should hear him out, and then ask our questions?

Mr. GORDON: I shall start with chart No. 22 and also make this statement in the way of a preliminary to a discussion. I shall undertake to see how we can put the sources in our charts. Sometimes it is a little difficult to put everything in the chart. But as far as it can be done, I shall endeavour to do so with future charts.

Mr. BROOME: Would it be possible for Mr. Gordon to make available to the secretary of the committee the sources of the charts?

Mr. GORDON: As it will appear in Hansard, it will show in some of the charts the source material; for instance, chart No. 1. Could you put that up for just a moment, or chart No. 2. I just want to give you an example.

Mr. FRASER: May I ask something else: next year would it be possible for Mr. Gordon to have charts on paper in order to give them to each member of the committee.

Mr. GORDON: I do not think so. I suggest to you that it would become more difficult. In the first place we try to make these charts as current as possible before the committee sittings. It would mean trying to prepare 30 different charts for 30 odd members, and it would be a great production job to get them ready in time. I am of the opinion—as part of my personal presentation—that I can do a better job when I will direct your attention to the screen.

This particular chart here will appear in Hansard, and it will have as its sources the Dominion Bureau of Statistics, the National Accounts, and the Canadian National Railways reports. This one will show that it has its source from the Dominion Bureau of Statistics material.

Mr. DRYSDALE: I do not know whether that road material was available in 1948 or 1958.

Mr. GORDON: Yes, I shall show that in future charts. I think it is a good suggestion as a criticism of our presentation. We are completely open to any suggestions from members of the committee as to how these charts can be made more useful to you.

Mr. DRYSDALE: It was not criticism. I mean that it is a basic thing in charts to know the source of material. One time I took a simple course in statistics, and there was one thing they emphasized in almost the very first lesson, and it was to have the sources of the material.

Mr. GORDON: Yes.

Mr. CARTER: May I suggest also that a brief commentary, or some brief note be prepared on the charts, not necessarily as elaborate as those Mr. Gordon has been making verbally; but if we just had some brief note to accompany each chart—they might be in mimeographed form—we would use them while the committee is sitting. We will not be getting the minutes until long after the committee has finished its work, and I think it would be useful to have such notes as I have suggested made available to us while the committee is sitting.

Mr. GORDON: We shall look to see what is possible in that respect.

Mr. BROWNE (*Vancouver-Kingsway*): Mr. Chairman, when we have in Hansard the source "Dominion Bureau of Statistics" I imagine that would be taken from a number of Dominion Bureau of Statistics documents. What I would like to be able to do is find the D.B.S. documents where these statistics are taken from.

Mr. GORDON: I think we are developing now what I was afraid of from the beginning, and that is the more information we give the more is wanted. As soon as you get your appetites whetted you want more. What I am trying to do here is to show you through the eyes of management what it is we look at to arrive at certain conclusions. Personally, I do not know the source of material and I am uninterested. I know Mr. Wahn is going to be able to stand up and defend that source of material if I question it, or else he is going to be out of a job. That is the best guarantee I have, because Mr. Wahn is a fellow who likes his job, is that right?

Mr. WAHN: Yes.

Mr. GORDON: So as management we cannot spend 30 seconds on that; we have not got the time. I have to assume that the statistics before me are correct.

Mr. BROWNE (*Vancouver-Kingsway*): That may be all right for your purposes, but I am suggesting for the purposes of this committee that if this

information is going to be helpful to the committee we are going to be dealing with the trucking industry and other forms of transportation. If this material is going to be helpful in assessing the whole transportation field, if we are going to use it, for instance, in dealings at another committee where the truck associations are appearing, we would want to be able to say, "All right, I have this information; it has come from so and so, and it is accurate."

On the basis of this submission I do not think it could be accepted at another committee. If the information is available it would be very helpful to know it.

The CHAIRMAN: Does it not come down to what Mr. Chevrier has mentioned? If we have to have the source of where you got it, you question the balance of the report? It is the same as the report at a shareholders' meeting, when you say, "Is your report correct?"

Mr. BROWNE (*Vancouver-Kingsway*): This is not dealing with a financial operation of the railways; it is an entirely different thing. This is purporting to show what truck transport has done, so much passenger automobile and what it has done, so much pipeline, so much water transportation which was done. We would like to know how that is arrived at.

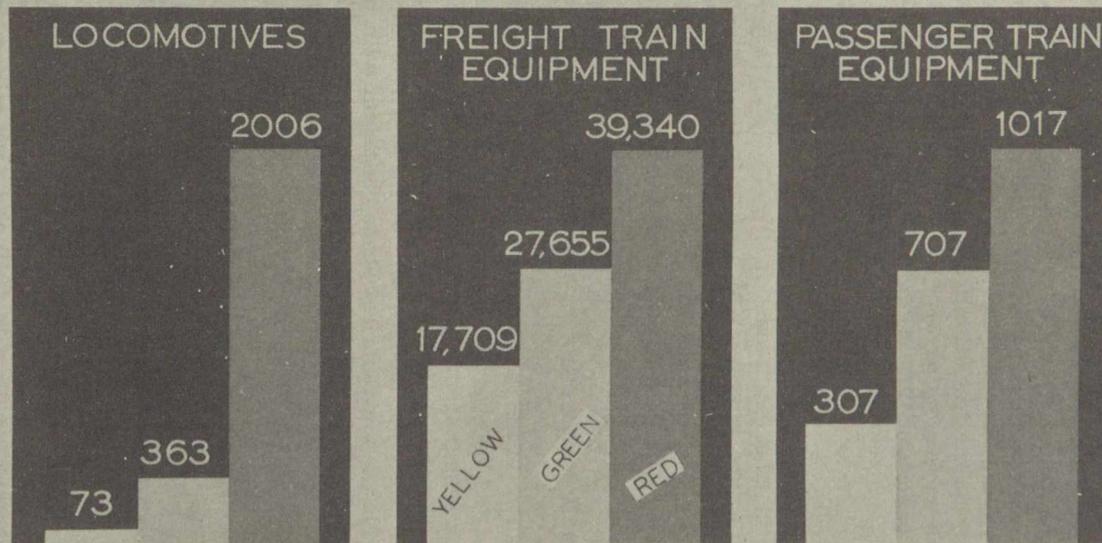
Mr. GORDON: As stated by the Canadian National Railways.

Mr. SMITH (*Simcoe North*): I am sure if the information is wrong Mr. Browne's truckers will be down here, I suppose, before very long to tell us that the information is wrong. With all due respect, I think I would like to get on. There are other members of the committee and I would like to hear what Mr. Gordon has to say and to reserve an opinion on the validity of the report until after he has completed it, because I do not know yet whether it is a good report or not.

Mr. DRYSDALE: Aside from Mr. Heber Smith's humour, he has missed the point of what we are trying to get at. I still think it important that we have basic information filed in with the report, so that if Mr. Gordon refers to the Dominion Bureau of Statistics we know where he got the information, and that we all have those figures. It is not enough for us to take Mr. Gordon's assurances and Mr. Wahn's assurance, or the fact that Mr. Gordon is going to fire Mr. Wahn. I would just like to have the Dominion Bureau of Statistics information myself.

Mr. GORDON: The last graph I dealt with was No. 20, but the next one is 22. (There is not one numbered 21.)

PURCHASE OF EQUIPMENT 1931-1960



| ESTIMATED EQUIPMENT INVENTORY DECEMBER 31-1960 | | | PER CENT PURCHASED 1951-1960 | YELLOW GREEN RED | 1931-1940 1941-1950 1951-1960 |
|---|---------|------|------------------------------------|------------------------|-------------------------------------|
| | UNITS | | | | |
| LOCOMOTIVES | 2,177 | 92.1 | | | |
| FREIGHT TRAIN EQUIPMENT | 113,630 | 34.6 | | | |
| PASSENGER TRAIN EQUIPMENT | 3,487 | 30.1 | | | |

PURCHASE OF EQUIPMENT

This chart shows a comparison of the purchase of equipment during the last three decades.

The first black block illustrates the purchases of locomotives, steam and diesel, and the other two blocks illustrate freight train and passenger train equipment purchases respectively. The three bars within each block are related to decades, the yellow representing the number of units acquired between 1931 and 1940, green between 1941 and 1950 and red indicates the purchases made and to be made between 1951 and 1960. The number of units for each class of equipment is shown at the top of the bars.

The most obvious observation is that the number of units of any class of equipment purchased in the last decade markedly exceeds the acquisitions which took place in either of the previous two decades. This is particularly true of motive power and reflects the transition from steam to diesel operation, which has mainly taken place in the last decade with full dieselization to be a reality in 1960. I shall say more about this on the next chart, which deals with dieselization.

It was necessary to acquire nearly 40,000 freight train cars in the last decade to replace worn-out cars, to modernize, and to provide the wide range of modern freight equipment to meet the diversified demands of today's shippers. The purchases of freight train equipment in the last ten years include many special types such as: heated boxcars, which serve as an ordinary boxcar in summer and as a car for perishable traffic in winter, all-steel all-welded flat cars for piggy back service, refrigerator cars, and double-deck automobile transporters, just to mention a few. Most of the new type cars were developed and designed by the C.N.R. Equipment inventory should decrease in the next few years as we are depending on improvements in freight car utilization to handle the small forecast traffic increase. We plan to develop and purchase special types of freight train cars which will be necessary additions to the inventory in meeting the constant changes in the transportation requirements.

More than half of the passenger train equipment purchased between 1951 and 1960 was delivered in 1953 and 1954 in order to renovate the company's passenger fleet. New coaches, sleepers, modern air-conditioned roomettes and railiners were added to provide the most efficient space consistent with modern standards of comfort and convenience. In addition to the new acquisitions shown on this chart, a further contribution toward improved passenger comfort was made by the modernization of older passenger carrying cars in the company's shops.

As a result of the dieselization program and the rehabilitation of the company's rolling stock, 92 per cent of the estimated locomotive inventory and one-third of the rolling stock will consist of modern units acquired in the last few years. This is shown at the lower part of this chart, the framed portion.

The modernization of equipment which has taken place in the last decade has been taken into consideration when forecasting our budgets from 1960 to 1965. The planned capital expenditure on equipment in 1960 is only \$35 million dollars compared with \$88.5 million in 1959 and \$110 million in 1958. It is planned that after dieselization is completed in 1960 the expenditures on equipment should fall below \$30 million annually in the next few years.

That covers the purchases of equipment. The next chart is slide No. 23 on dieselization. This is a most interesting chart.

DIESELIZATION

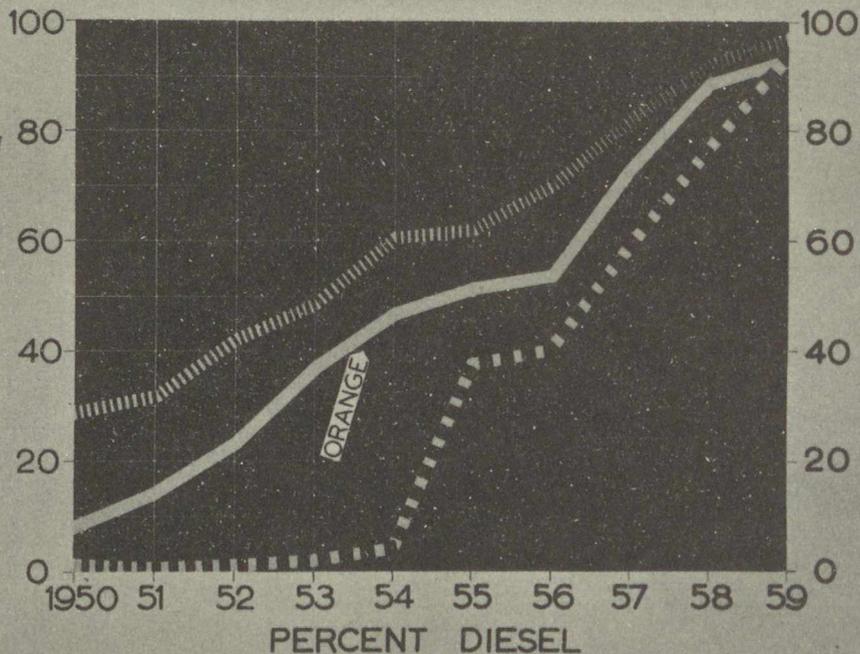
EXPENDITURES
ON DIESELIZATION
\$ MILLIONS

14.3
27.5

411.5

TOTAL 453.3

GREEN ■ AT END 1959
RED ■ BUDGET 1960
YELLOW ■ TO COMPLETE



■■■■■ YARD: OF TOTAL ENGINE HOURS
——— FREIGHT: OF TOTAL GROSS TON MILES
- - - - - PASSENGER: OF TOTAL PASS. TRAIN CAR MILES

ANNUAL AVERAGES

DIESELIZATION

From the information on this chart, No. 23, you can see just how close the Canadian National came to 100 per cent dieselization in 1959. I can now tell you that at present traffic levels we expect to be completely dieselized by June of this year.

The graph on the right shows that in 1959 diesel units handled nearly 100 per cent of our total freight, passenger and yard work loads. The graph also indicates the progress of dieselization for the three services since 1950, which was the first year of our program. The growth has been relatively constant for the yard and freight services, but you will note the passenger curve reflects a different policy. Very little was done up to 1954, at which time the trans-continent passenger trains were dieselized. Since then, the rate of dieselization of passenger service has been relatively constant.

To the left of the graph you see a colour bar which shows our expenditures on dieselization to the end of 1959, those proposed for 1960, and the amount remaining for future years.

The green section of the bar shows that a total of \$411.5 million has been spent to the end of 1959. \$368.1 million of this was for the purchase of diesel locomotives, and the remainder, or \$43.4 million, represents the cost of allied facilities such as shops, spare parts, tools, fuelling facilities, etc.

To these totals should be added our budget item for 1960, shown in red, which amounts to \$27.5 million. This proposed expenditure may be separated into \$19.2 million for locomotives and \$8.2 million for additional facilities.

We can therefore estimate that by the end of this year we will have spent a total of \$439 million on dieselization, \$387 million for diesel units and \$52 million to cover other expenditures associated with the program.

The \$14.3 million at the top of the bar represents the additional amount required to complete the program. About \$6 million of this will be spent on shops, etc., but the remainder is only a contingency item to provide for the purchase of 40 additional units in the event that the traffic volume exceeds our 1960-1961 forecast.

In other words, that is a contingency item only and we will only use it if in point of fact our traffic volume goes up above our present forecast.

By the end of June of this year, we will have placed in service 2,161 diesel units, of which 17 have been retired since 1950 because of serious damage. The number actually operating throughout the System will thus be 2,144.

As far as our rate of return is concerned, I can say that preliminary analysis shows that we are exceeding the anticipated rate of return. You may be interested to know, for instance, that we calculate that compared with 1949 our fuel expense is about \$38 million less as a result of dieselization.

In addition to the direct economies provided by dieselization, there have been vast improvements in train service. Heavier train loads, higher speeds and better on-time performance represent only a few of these benefits. Some of our train performance statistics will be shown in Slide 27.

Now we come to chart No. 24.

REDUCTION IN BROKEN RAIL

1940 — 1960

THOUSANDS

MILES

100

1000

90

MILES OF NEW RAIL LAID

900

80

MILES OF NEW RAIL LAID

800

70

MILES OF NEW RAIL LAID

700

60

MILES OF NEW RAIL LAID

600

50

MILES OF NEW RAIL LAID

500

40

RAIL FAILURES

DERAILMENTS BY
BROKEN RAILS

BLACK

UNITS

40

30

20

10

0

1940

1945

1950

1955

1960

40

30

20

10

0

24

REDUCTION IN BROKEN RAIL

This is an interesting chart, showing the effect of modern methods in respect of the reduction of broken rail.

With this chart we have reached the part of our presentation dealing with some of the effects of capital investments on our operating costs.

This chart is intended to indicate the relationship between new rail laid, rail failures, and derailments due to broken rails. It covers the period 1940 to 1960. The green line is plotted using the green figures on the right of the graph and shows the miles of new rail laid each year. The black line, using the figures on the left side of the chart, indicates the number of rail failures in thousands, and the red line—read this line from the red numbers on the right—shows the number of derailments due to broken rails.

The dotted part of the green line shows the number of miles of new rail we plan to lay in 1960. The dotted black line indicates we have only preliminary figures for rail failures in 1959. The number of derailments (the red line) has been plotted only since 1953 as information was incomplete prior to that year.

You will notice that the number of miles of new rail laid (green line) varies widely through the years. Between 1940 and 1953 our program was largely governed by the availability of steel each year. During this period, because of this shortage, a large backlog of deferred maintenance was incurred with respect to our rail. As has been pointed out previously, when the map on the new rail program was on the screen, our normal replacement program requires about 660 track miles of new rail annually and this means that, in order to overcome the backlog of deferred maintenance due to previous years when steel was not available in sufficient quantity, we have had to place more rail than normal during recent years. The green line clearly illustrates this cycle from 1955 on.

The number of rail failures depicted by the black line—and I would like you to look at that line very carefully—shows a definite downward trend as does the number of derailments due to broken rails, illustrated in red. The graph shows the relationship between new rail laid and the number of failures and derailments.

Now as a commentary note rail failures are revealed through tests by a Sperry Car, supersonic and audigauge equipment or visual inspection by the maintenance forces. Tests are made each year on about 12,000 miles of track with Sperry Induction cars and also on a considerable mileage by ultrasonic testing at the rail end within the joint area. These tests are supplemented by continual visual inspection by track forces.

Mr. Drysdale, I am glad to tell you the source of this chart is the Canadian National Railways.

Mr. DRYSDALE: Forty failures per thousand miles of track?

Mr. DINGLE: That is 40,000 in 1940.

Mr. DRYSDALE: Forty thousand failures for the year?

Mr. DINGLE: Yes.

Mr. FISHER: I am concerned about two variables that can be taken into consideration in a graph such as this, and it is the intensity of maintenance and then the cost of derailments and their variability because of the larger trains and greater scope. Is there anything coming along in your later evidence that will go into this? This it seems to me gives us just one side of the picture.

Mr. GORDON: You want it in terms of figures?

Mr. FISHER: I would like to see the relationship of what your rail program has done to your maintenance forces.

The CHAIRMAN: How much it has reduced the maintenance cost?

Mr. FISHER: Yes; and the maintenance personnel.

Mr. GORDON: Well, you are on a different subject, I think, Mr. Fisher. As I comprehend your question you want to know the extent to which our new rail is being laid through the process of mechanization, which would release working forces?

Mr. FISHER: No, I do not. There is a definite relationship between the new rail that you put in and the number of maintenance people you have to keep on the job?

Mr. GORDON: Yes.

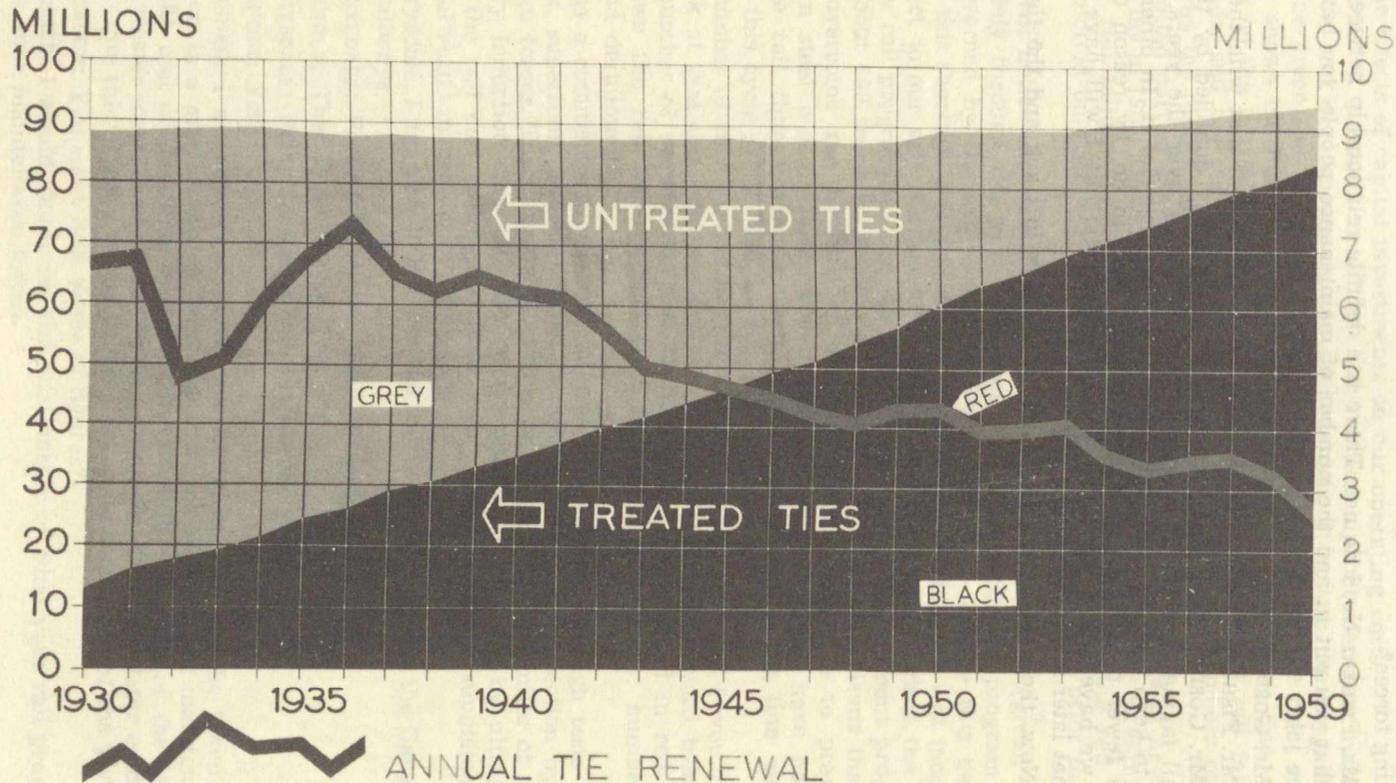
Mr. FISHER: I would like to see some correlation of that with these figures.

Mr. GORDON: Yes, but you see that is definitely qualified by the method of rail laying, which has changed very materially over the years. I will be glad to keep that in mind and give you a description of it. In other words, it takes fewer men today to lay rail than it used to do, by reason of the fact that we have machinery and different techniques; but I will have something on that later if you will leave it with me.

Now, the next chart, No. 25, shows the ties in track and the tie renewals.

TIES IN TRACK - TIE RENEWALS

1930 - 1959



TIES IN TRACK—TIE RENEWALS

Another excellent example of the effects of capital investment on the realization of economies presented to you in this chart. The chart also indicates an important characteristic of railway investment, and that is that the realization of many of these economies is on a long-term basis. By this I mean that it is only after the improved materials have been in track for a period of time equal to the anticipated service life of inferior materials that the economies begin to be realized and the additional investment starts to pay off. The average life cycle of treated ties in main line track, dealt with in this chart, is about 27 to 30 years, whereas untreated ties have a service life of about 10 years. At present, the price of an untreated tie is about \$1.80, whereas the price of a treated tie is around \$3.00.

This chart covers a period of 30 years, starting with 1930 and ending with 1959.

The total area covered in black and grey shows the total number of ties in track at the end of each year. What is the unit there?

Mr. HUNT: Numbers of ties in millions.

Mr. GORDON: That is in millions. It does not show in your chart, does it?

Mr. HUNT: The number of ties are in millions. For instance, in 1930 we had something over 88 million ties.

Mr. GORDON: The arrows on the chart point to the left hand scale, which is in millions. As you see, reading along the top of the grey area and using the left hand scale of the chart, the total number of ties in track has increased from 88 million ties in 1930 to about 94 millions at the end of 1959. The increase percentage-wise is somewhat greater than the increase in the number of miles of track maintained, which rose from 31,700 miles to approximately 33,000 for the same period. The reason for this is that we found that on high traffic lines ties should be spaced more closely to provide better support.

There has been a significant shift, as you will see, from untreated ties to treated. This is illustrated by the increasing size of the black area, showing the number of treated ties, and the diminishing grey area which represents the number of untreated ties in track. Treated ties, the life cycle of which is almost three times longer than that of the untreated, were first installed in large quantities about 35 years ago. Treated ties accounted for only 15 per cent of the total number of ties in 1930 and compared to nearly 90 per cent at the end of 1959.

The red line which runs across the black-grey area represents the number of annual tie renewals in millions, shown on the red scale to the right of the graph.

It is the general policy to use treated ties only, except in tracks which are of a temporary nature or at locations where mechanical wear is the determining factor in the life of the tie. As a result of this policy, the annual rate of tie renewals has been reduced, as is shown by the red line, from 6.6 million ties in 1930 to 2.7 million ties in 1959. This reduction is almost entirely due to the past use of treated ties.

If no treated ties had ever been installed, it is estimated that the number of ties required for renewal in 1960 would have been 9.3 million. The actual number of ties for renewal is 2.4 million, which represents a cost differential equal to a saving of \$18,600,000. We must realize, however, that the red line cannot drop indefinitely and, subject to the number of miles of track maintained, it will flatten out somewhere between two and three million renewals of ties annually.

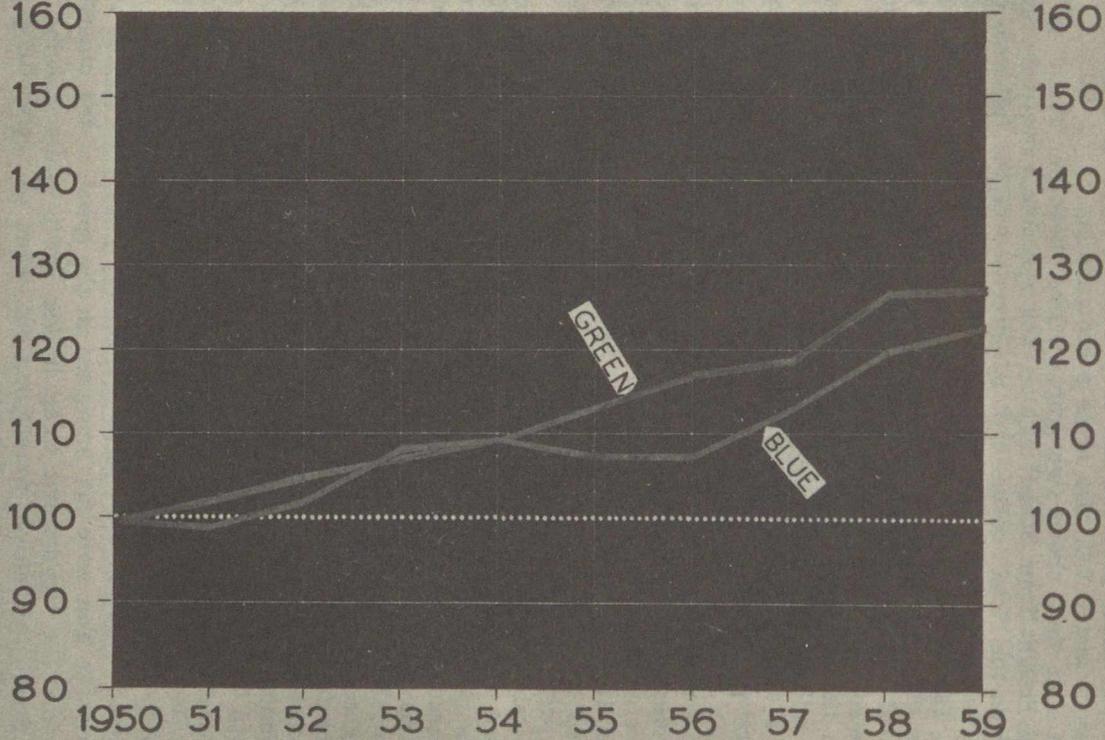
One other investment that assisted in achieving savings of this magnitude has been the use of tie plates. These metal plates are placed between the rail and tie to distribute the train load over a larger area of the tie and to prevent the rail from cutting into the wood. Of the total ties in all C.N.R. system tracks, about two-thirds are tie plated. As we plan to put tie plates on nearly all our ties, you can see we still have a considerable way to go. A new tie plate incidentally, costs about \$1.20.

Proceeding with this performance series, we come to slide 27.

equal to the amount...
 begin to look...
 the type of...
 21 to 30 years...
 present, the...
 treated in...
 This chart...
 1959
 The total...
 in track at...
 Mr. Board...
 Mr. G...
 Mr. H...
 something...
 Mr. B...
 is in million...
 the left hand...
 from 80 million...
 performance...
 of track...
 the same...
 ties should be...
 There has...
 treated. This...
 the number of...
 number of...
 three...
 quantities...
 the total...
 of 1959.
 The red...
 of annual...
 Graph.
 It's...
 of a...
 factor...
 ing...
 renewals...
 1930 to...
 past...
 The...
 lies...
 number...
 equal to...
 cannot...
 it will...
 annually.

INDEX OF FREIGHT TRAIN PERFORMANCE

(INDEX) 1950 - 1959 1950 = 100% (INDEX)



BLUE ■ AVERAGE FREIGHT TRAIN SPEED
 GREEN ■ GROSS LOAD PER TRAIN

27-1

INDEX OF FREIGHT TRAIN PERFORMANCE

Mr. GORDON: This group of slides shows some indices of train performance. The series consists of four slides which indicate on an index basis, 1950 equals 100, the change that has occurred in several operating statistics over the 10-year period from 1950 to 1959 inclusive. These changes are primarily the result of the diesel program, but several other major programs such as siding extensions and C.T.C. also made a contribution.

The first slide then, shows two graphs "Gross Load per Train" in green and "Average Freight Train Speed" in blue. You will note a relatively constant improvement on the "load" curve—that is,—green—over the full-time period and by 1959 the index is up to 128, which represents 2,150 tons on the average freight train. The freight train speed has increased at about the same average rate, and the temporary flattening of the curve in 1955-1956 was due to the high volume of traffic, which resulted in heavier loading per unit of motive power and to some extent increased interference in traffic flow.

Between 1950 and 1959 the average train speed rose from 16.2 miles per hour to 20.0 miles per hour.

I think I ought to make it clear that average freight train speed as recorded in railway statistics is calculated by dividing total freight train miles by total freight train hours.

In other words, the speed is calculated on the basis of the elapsed time between terminals and is not to be taken an indicative of the actual speed of the train. The elapsed time includes all stops for loading or unloading. As I said, between 1950 and 1959 the average freight train speed rose from 16.2 miles per hour to 20 miles per hour—which is quite a considerable improvement in our performance record.

Freight train hours include terminal to terminal time only, and exclude time trains are within terminals. The Canadian National operates over 300,000 freight trains per year, of which approximately one-third are wayfreights making numerous stops and incurring considerable delays between terminals. These trains have an average speed of less than 15 m.p.h.—the actual figure being 13.5 in 1959. Many of our through freight trains average over 30 m.p.h. and the piggyback train between Montreal and Toronto averages 45 m.p.h. The average speed for all our freight trains in 1959 was 20 m.p.h. It should be noted that what limits the overall average speed of freight trains is not the attainable running speed, but, as I said before, the stops to be made, the work to be done, and the delays encountered between terminals.

Mr. DRYSDALE: Why is 1950 taken as the base year, when all the former graphs used 1949? I realize that you said dieselization came in in 1950—is that the only reason?

Mr. GORDON: That is the point.

Mr. DRYSDALE: You were not interested in the speed of the other—

Mr. GORDON: No, we did not think it was worth while showing years before 1950. Steam locomotives were dying out, when we were still a steam railroad. We started this series of graphs.

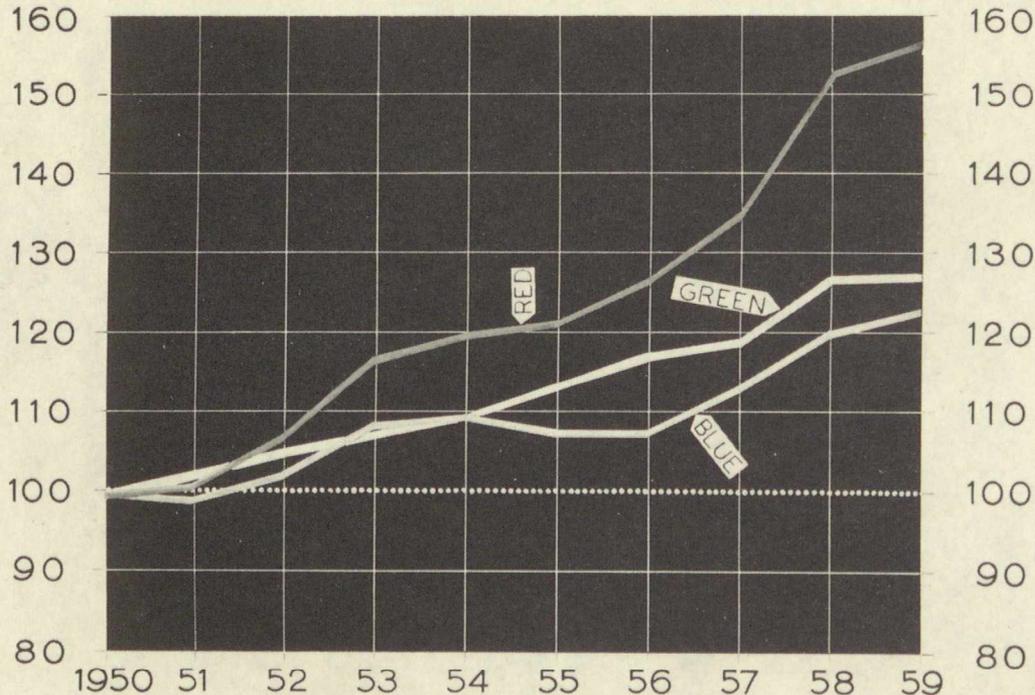
Mr. BENIDICKSON: Mr. Gordon, we have heard a great deal about the increased size of trains as a result of dieselization. Does that graph prove that in nine years only a 28 per cent increase in the average load per train is the result?

Mr. GORDON: Yes, that is about right.

Turning to the next chart, I think you will see some more information on our train performance—chart No. 27-2.

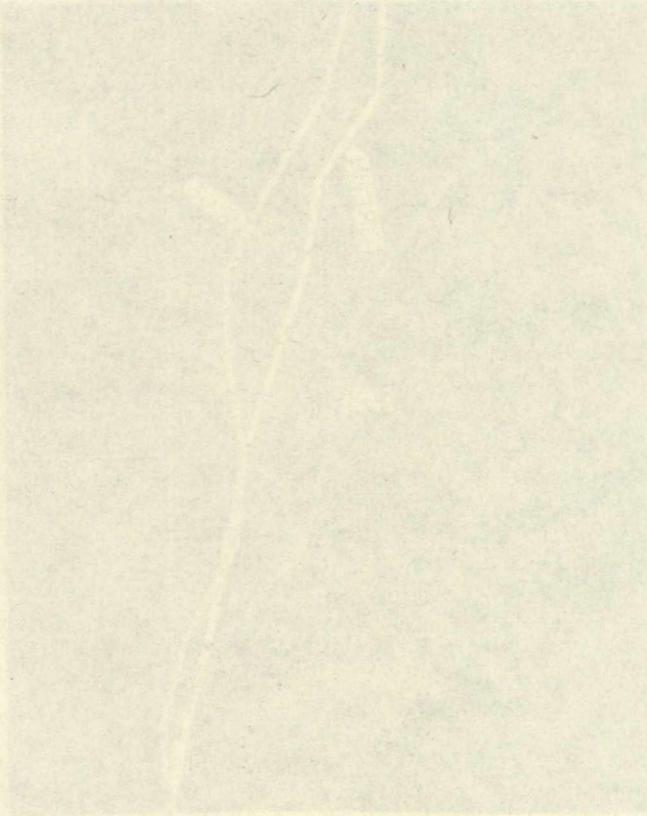
INDEX OF FREIGHT TRAIN PERFORMANCE

(INDEX) 1950 - 1959 1950 = 100% (INDEX)



BLUE AVGE FRT. TRAIN SPEED
 GROSS TON MILES PER FREIGHT TR. HR
 GREEN GROSS LOAD PER TRAIN
 RED

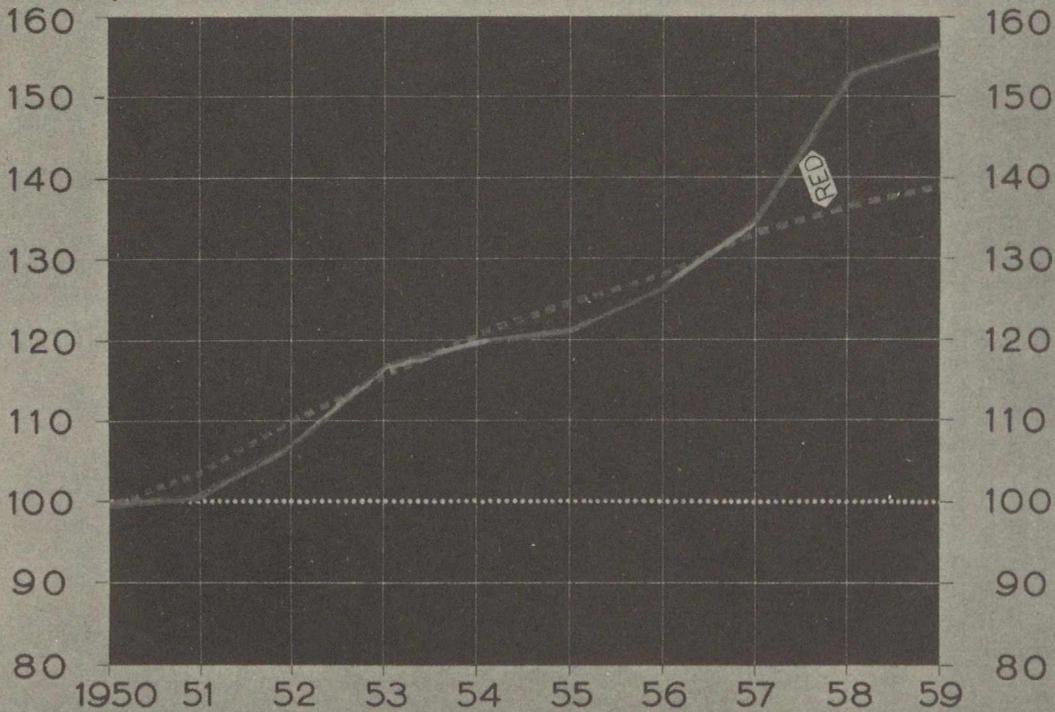
Mr. GORDON: The product of train loading and train speed, slide No. 27-2, is "Gross ton-miles per Freight Train Hour", the red line. This statistic has been a common performance indicator for many years and is used by most railroads. You will note that by 1959 the index of the red line is up to 157, which indicates a 57 per cent increase over 1950.



INDEX OF FREIGHT TRAIN PERFORMANCE

INDEX OF FREIGHT TRAIN PERFORMANCE

(INDEX) 1950 - 1959 1950 = 100% (INDEX)



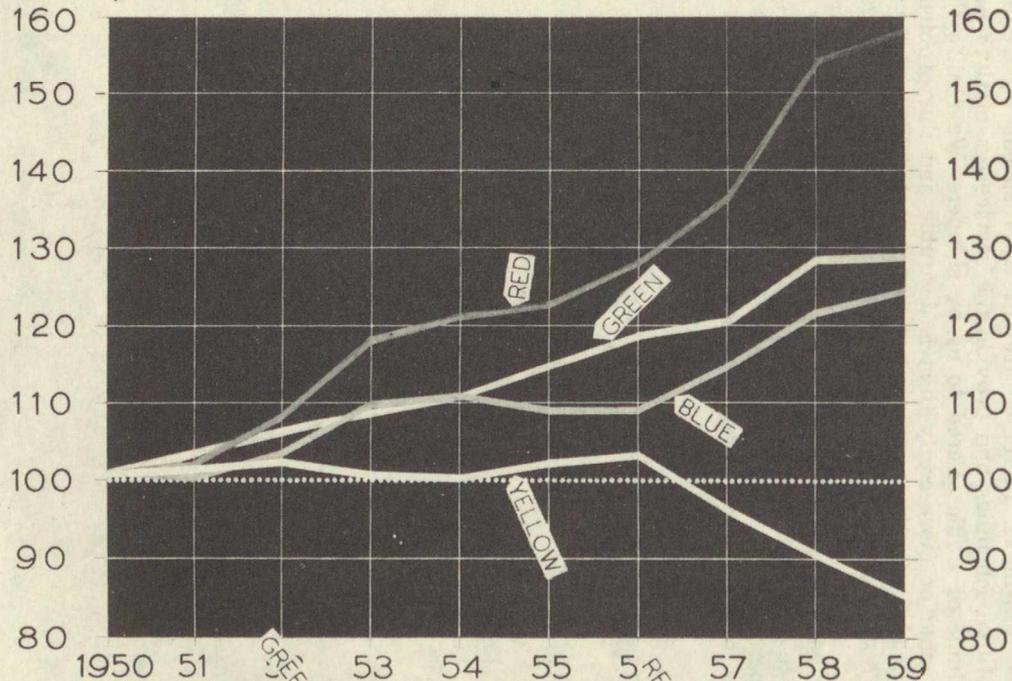
GROSS TON MILES PER FREIGHT TRAIN HOUR
 RED C.N.R., U.S., CLASS 1 R.R.

27-3

Mr. GORDON: The next slide, No. 27-3, retains the red line, the index of "Gross Ton-Miles per Freight Hour" for the Canadian National Railways, and adds the index of the same statistic for U.S. Class 1 railroads as a dotted red line. You will note that the improvement of the statistic on both curves is approximately constant through to 1957, at which time the Canadian National statistic increases at a more rapid rate than does the curve covering the American railroads. These two curves indicate that the rate of improvement in both cases has been approximately the same, but it is important to realize that, in general, American Class 1 railroads were dieselized in 1956 and that the C.N.R. will be dieselized in 1960. This factor has a bearing on relative rates of improvement between 1956 and 1959. It must also be borne in mind that this chart shows only the rate of improvement and that the American roads' statistic has been, and is higher due to much greater traffic density.

INDEX OF FREIGHT TRAIN PERFORMANCE

(INDEX) 1950 - 1959 1950 = 100 (INDEX)

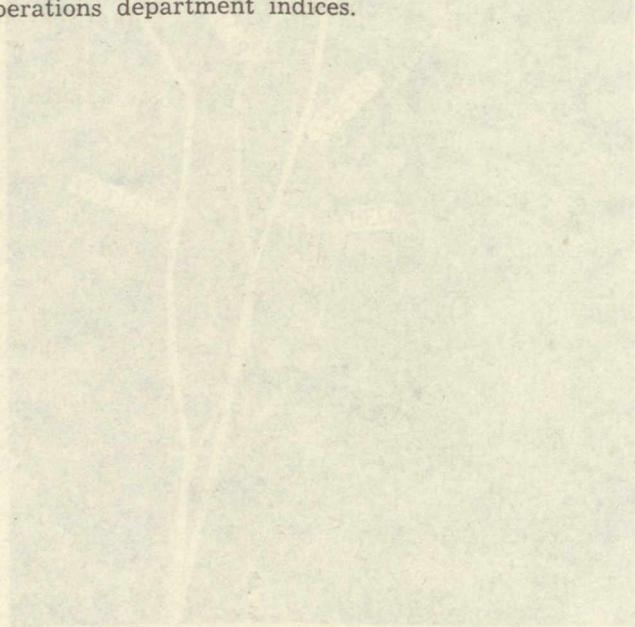


BLUE — AVGE FRT. TR. SPEED
 TONS PER TRAIN
 G.T.M. PER FRT. TR. HR.
 YELLOW — GROSS TON MILES PER TRACTIVE UNIT MILE OF 50,000 LBS. (STEAM & DIESEL)

Mr. GORDON: On the last slide in this sequence, No. 27-4, the green and blue lines have been returned. We have retained the red line, gross ton-miles per freight train hour, and a fourth line, which is an index of "Gross Ton-Miles per Tractive Unit Mile of 50,000 Pounds", shown in yellow, has been added. This statistic indicates the work load handled per standard unit of motive power. This last statistic remains constant between 1950 and 1956, but from 1956 to 1959 it decreases at a rather steep slope indicating that the rate of increase in the use of motive power to handle freight trains is greater than the increase in gross ton-miles. Increased freight train speeds are required to maintain competitive schedules and provide the service essential to hold and increase the volume of traffic offered to us by shippers. We realize that this service feature could be more costly than is desirable and this problem—that is, train speeds, loads, and the use of motive power—is being carefully studied in order that we may provide the required service at a minimum justifiable expense.

This is a problem which we are studying very closely, to see how we can justify the service demands in relation to the revenue from the traffic offering.

With your permission, I will now move on to the next series; slides 28-1 to 28-4 which are operations department indices.



160

150

140

130

120

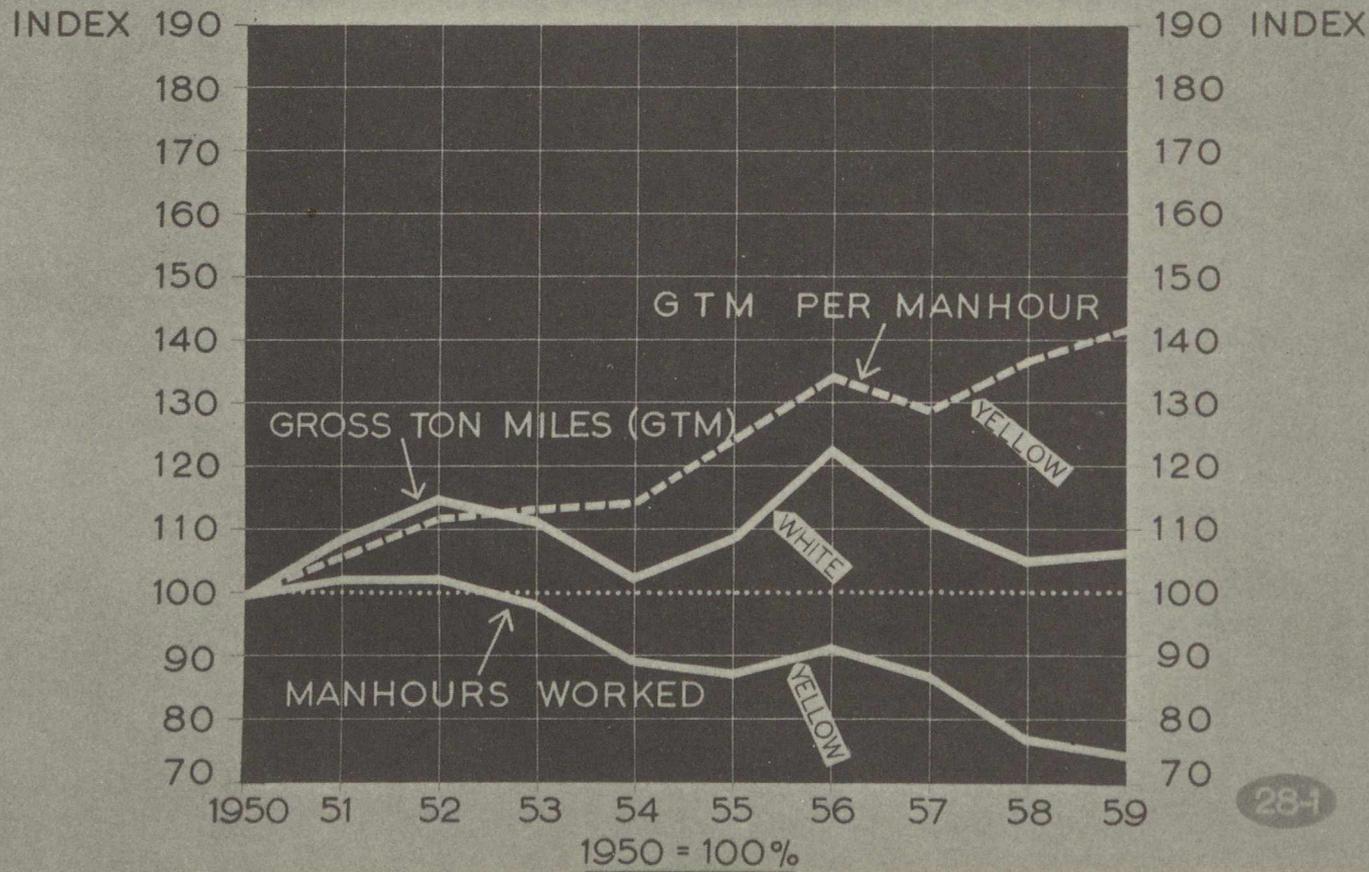
110

100

INDEX OF FREIGHT TRAIN TON-MILES PER TRACTIVE UNIT MILE OF 50,000 POUNDS

INDICES OF OPERATION DEPARTMENT 1950-1959

MANHOURS AND PRODUCTION



INDICES OF OPERATION DEPARTMENT, 1950-59

In this group of slides we show some indices of the operation department. I think that you will find this series, which deals with productivity, quite interesting. The period under consideration is 1950 to 1959.

For some period of time we have been trying to determine the overall effect on the Operation Department of the near completion of some of our major capital works. A considerable amount of money has been spent on modernization of the railroad and, although in some cases the return on the project is on a long-term basis—as I was just explaining a moment ago—and in other instances large amounts are invested in projects which are not completed, it is felt that substantial improvements should now be evident in the operation of trains and in the Maintenance of Way and Equipment.

There are four separate slides covering this subject also, and I will try to show you the effects which modernization programs, new methods, wage and material price increases, etc. have had on the productivity and costs in the Operation Department.

This department, which employs roughly 83 per cent of the total staff in the railroad, is responsible for the operation of trains and the maintenance of equipment, track structures and buildings. It is in this department that I expect improvements in productivity sufficiently large to justify our major capital programs.

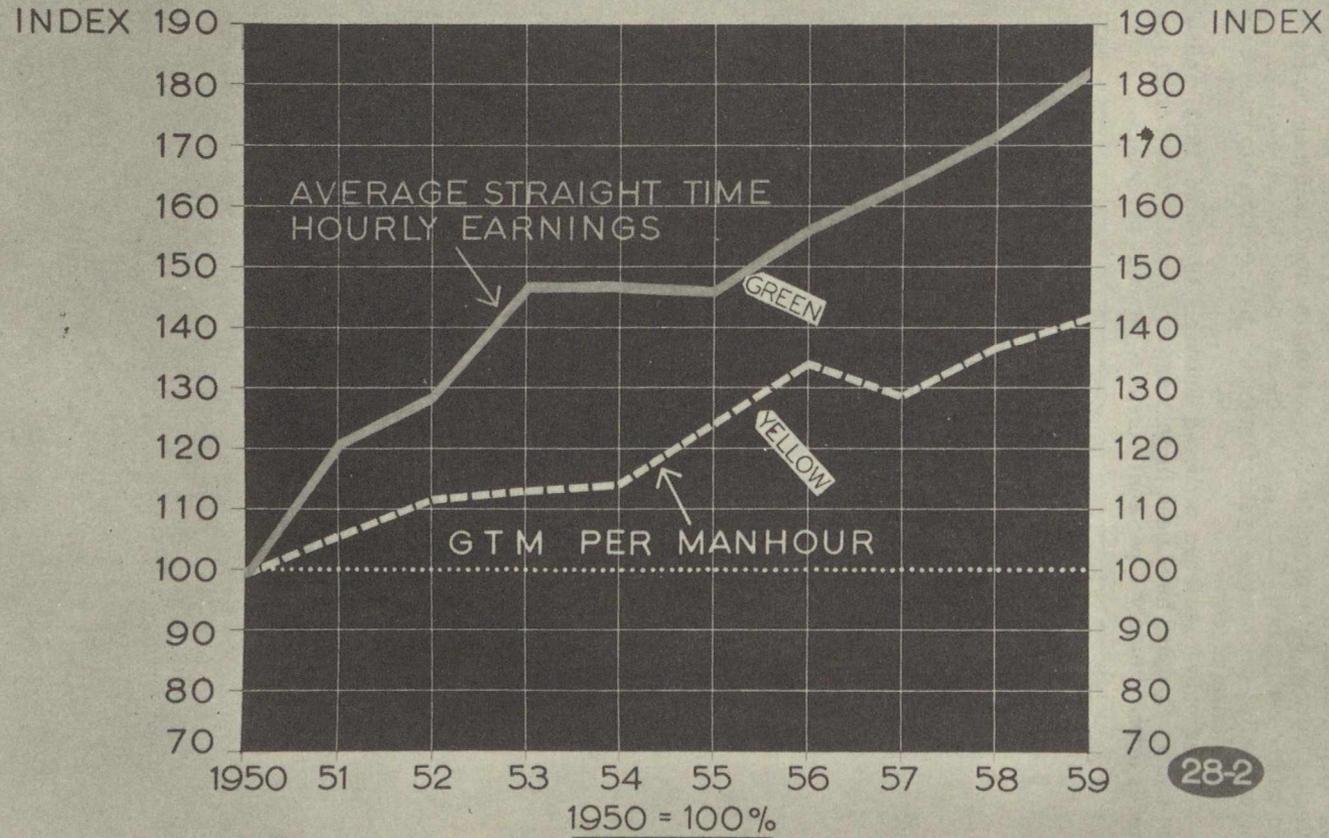
The first slide, which is No. 28-1, shows three curves which are indices plotted relative to 1950. The lower line, in yellow, indicates quite clearly that the total man hours worked have decreased quite steadily from 1950 to 1959 with the result that in 1959 the index is approximately 75 per cent of 1950.

The white line, gross ton-miles, introduces the basic work load for the department and is also shown on an index basis (1950 equals 100). There have been large fluctuations in this line, the maximum work load occurring in 1956, but by 1959 the work load is only 7 per cent greater than in 1950. The ratio of work load and man hours produces a general measure of productivity, gross ton-miles per man hour worked, which is the dotted yellow line. The curve shows an increase in productivity for each year except 1957, which would indicate that at that time we did not react quickly enough to the rapid decrease in work load during that year, following the high volume conditions which prevailed in 1956. By 1959 the index of productivity was up to 142, which indicates an average increase over the nine-year period of approximately $4\frac{1}{2}$ per cent per year relative to 1950.

Now that we have developed the productivity curve, it will be retained on the next slide, No. 28-2. For comparison purposes, a new curve, showing average straight time hourly earnings, will be added.

INDICES OF OPERATION DEPARTMENT 1950-1959

PRODUCTIVITY AND EARNINGS

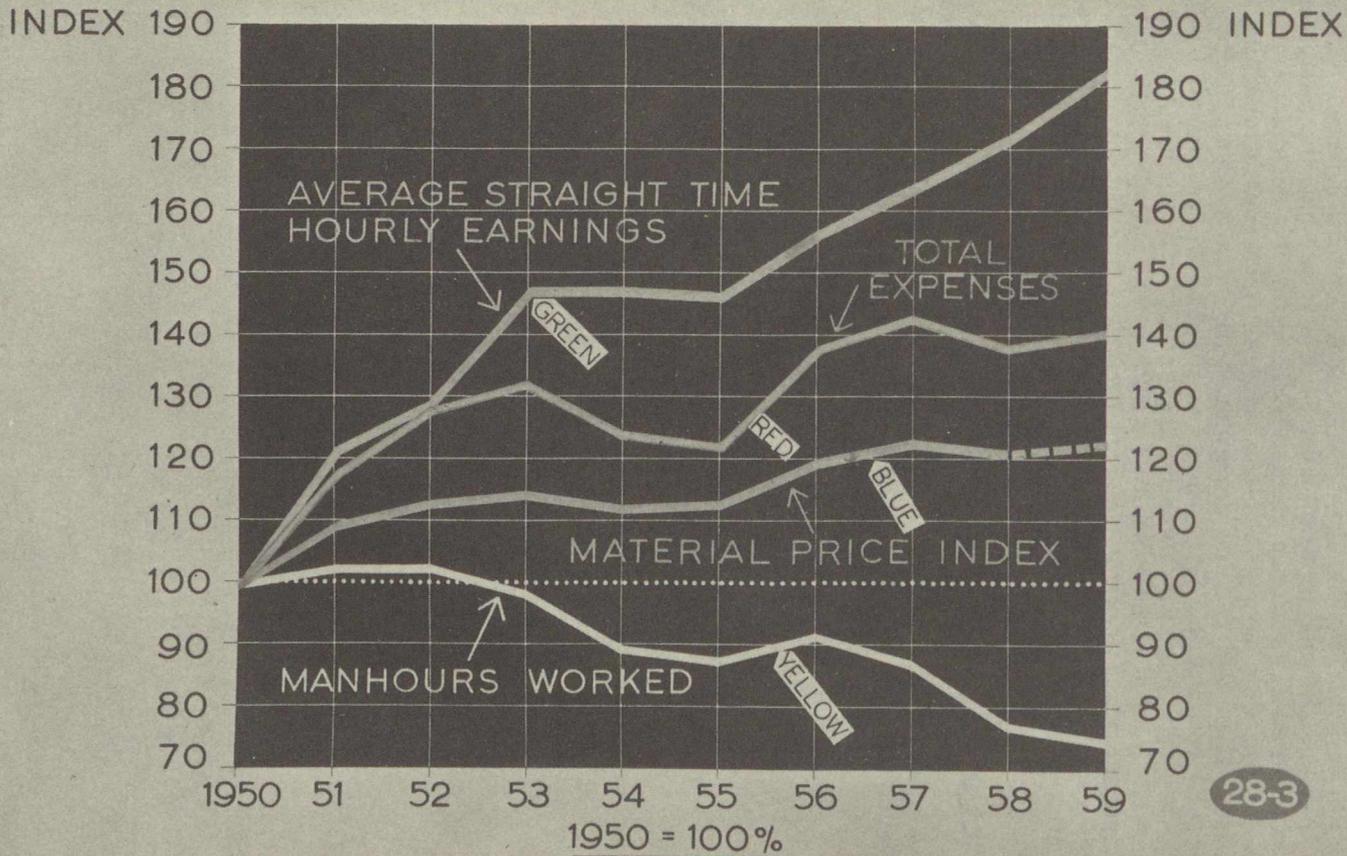


The new curve on Slide No. 28-2—shown in green—indicates “average straight time hourly earnings”. It is now possible to make a comparison of wages and productivity. You will note that although we have made an appreciable improvement in the productivity index, the index of hourly earnings is increasing at a far greater rate. The 1959 index in fact stands at 183, which produces an average increase of approximately 9 per cent per year for the nine-year period. This should be compared to an average productivity increase of $4\frac{1}{2}$ per cent per year. Obviously that relationship must be recognized as highly unsatisfactory.

The greatest variance occurred between 1950 and 1953, and since 1953 the hourly earnings have been increasing only slightly faster than productivity, that is approximately 6 per cent versus 5 per cent per year.

INDICES OF OPERATION DEPARTMENT 1950-1959

MANHOURS AND EXPENSES



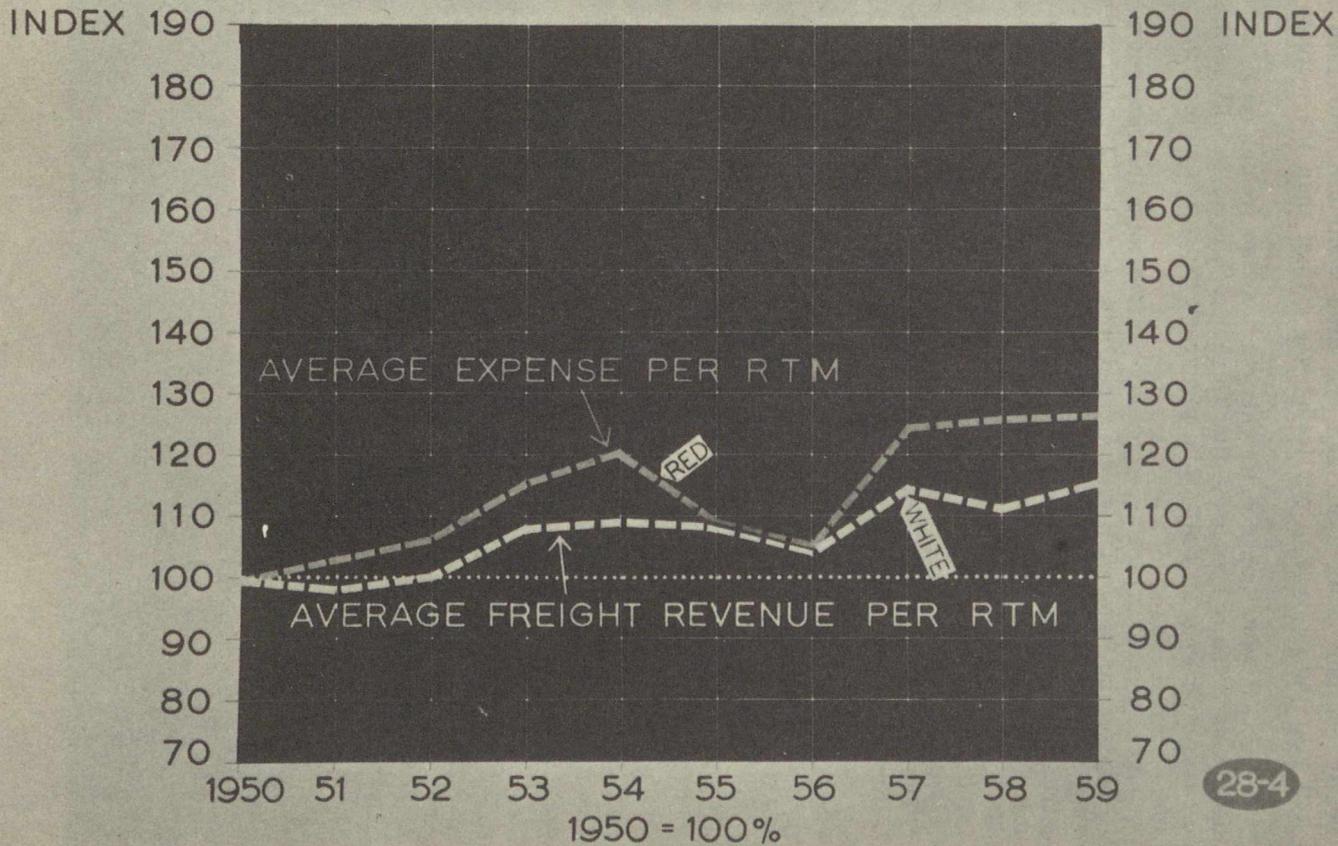
On the next slide, No. 28-3, the green line representing average hourly earnings is retained. The man-hour index again appears in yellow and we have introduced two more curves. These are the materials price index shown in blue, and total expense in red.

In any year, the red line—that is, index of total expense—is mainly the man-hours expended times the average hourly rate plus the cost of materials consumed and depreciation charged. Once again it is obvious from this chart that although we have been able to reduce the man-hours worked, the increase in the labour and material price indices has been sufficient to drive up the total expense line to a point we cannot afford at present revenue levels. There are two very interesting time intervals on this chart which I would like to direct to your attention. The 1953 to 1955 period indicates that with constant wages and prices we were able to make substantial reductions in total expenses. Between 1953 and 1955 we experienced a relative stability in our wages and prices, and because of that stability we were able to make substantial reductions in our total expenses.

You will recall that graph 28-1 showed that in the 1956-1959 time interval our work load decreased substantially. This graph, No. 28-3, shows that in the same period total expenses remained virtually constant, despite the decrease in man hours. The reason why total expenses did not also decrease was due to the increase in wage rates and to a rise in depreciation.

INDICES OF OPERATION DEPARTMENT 1950-1959

REVENUES AND EXPENSES PER REVENUE TON MILE



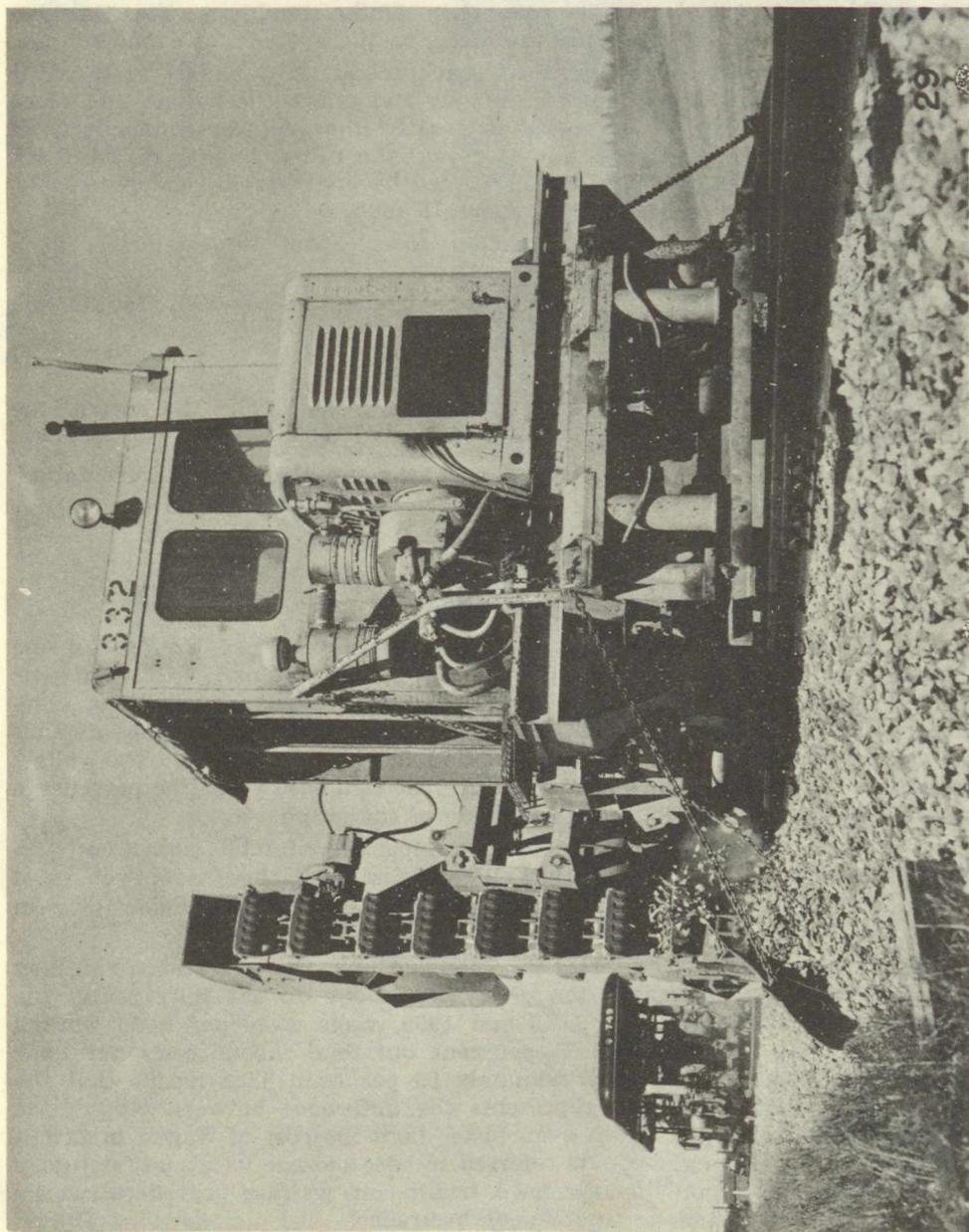
The next and last slide in this series—No. 28-4—compares revenues and expenses by using a common denominator, revenue ton-miles. The dotted red line is the index of average operating expense per revenue ton-mile. This line dropped in 1954-55 because we were able to decrease total expenses with a nearly constant work load, and the drop continued into 1956 because in that year the increase in our traffic was greater than the increase in our expenses.

The dotted white curve represents our average freight revenue per ton-mile. You can readily appreciate that this average revenue will fluctuate with rate changes, changes in traffic mix, piggyback expansion, agreed charges, and so on.

Generally speaking, when expenses per ton-mile increase more rapidly than revenue per ton-mile, we are faced with a deficit. I point to the 1953 to 1954 and the 1957 to 1959 periods where this condition existed and deficits occurred. Naturally the reverse is also true, and this is backed up by the fact that in both 1955 and 1956, when the two curves are converging, we realized a profit.

I think that pretty well completes the series which showed some of the effects on our quotations of our capital expenditure programs.

The next picture I have to show you is a unit of roadway machinery. Mr. Dingle, perhaps you could tell the committee how this machine operates.



BALLAST DISTRIBUTOR

Mr. DINGLE: The machine shown in the foreground of this slide is a ballast distributor which picks up ballast that has been placed on the shoulders of the grade supporting the track by ballast cars. By means of a chain-bucket arrangement on either side, the machine elevates the ballast for deposit between the rails. It also does a rough trim of the shoulders. This machine is operated by one man, and takes the place, on the average, of about 30 men.

The other machine, shown in the background, is a ballast tamper. It works in unison with the ballast distributor and tamps the ballast into place between the ties. The whole operation greatly improves the productivity of our maintenance of way forces and improves the riding quality of the track structure. The ballast tamper is also manned by one operator and represents, on the average, the replacement of about 16 men.

The two machines working together cover about three-quarters of a mile per day.

This photograph was taken during actual operation between Halifax and Truro last summer.

Mr. CHEVRIER: What is the cost of the machine?

Mr. DINGLE: The cost of the distributor is \$40,500, and the cost of the tamper is \$45,000.

Mr. GORDON: We are now getting close to the end of the chart presentation.

The next chart, No. 30, is a very interesting one. It is based on labour cost and hours worked on our Canadian lines.

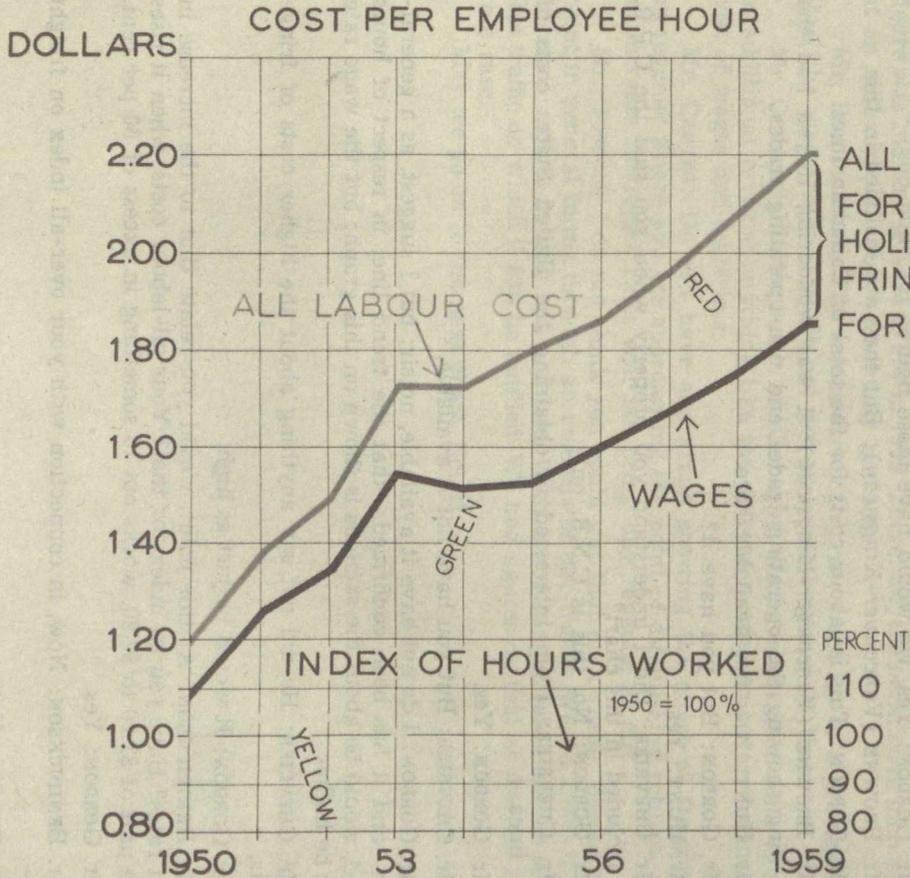
Labour Cost and Hours Worked

On the left half of the chart you see a graph showing the cost of the company per employee hour. The green line represents actual wages per hour worked, while the red line shows total labour cost including vacations, statutory holidays and fringe benefits. The space between the two lines denotes the cost of vacations, statutory holidays and fringe benefits only. The yellow line shows the index of hours worked using 1950 as a base year. The percentage scale for the yellow line is to the right side of the graph.

The right half of the chart shows a comparison of total labour costs, in millions of dollars, 1950 versus 1959. When looking at these data, you must remember that the work load in 1959 was about 7 per cent higher than in 1950.

From this chart, based on data for Canadian lines rail operations, you may note that wage rate increases, the green line, alone do not fully reflect the rising cost of labour. Between 1950 and 1959, wage costs per hour worked (the green line) rose by some 71 per cent but total labour costs per hour worked (red line) rose by approximately 83 per cent. This means that the cost of fringe benefits, which represents the difference between wage costs and total labour costs, has risen even faster than the cost of wages, in fact it almost tripled. The fringe benefits referred to here include vacations, statutory holidays, pensions, group life insurance, health and welfare provisions, workmen's compensation, and unemployment insurance.

The data to the right of the graph tell a similar story. In 1950, fringe benefit costs amounted to \$30 million or 10 per cent of total labour costs. By 1959, however, fringe benefit costs had risen by \$44.6 million or 16 per cent of total labour costs. During this same period, total labour costs increased by \$169.5 million or 57 per cent despite a 14 per cent reduction in man hours worked.



TOTAL COST TO COMPANY

| | \$ MILLIONS | |
|--|-------------|-------|
| | 1950 | 1959 |
| ALL LABOUR COST | 297.5 | 467.0 |
| FOR VACATIONS, STAT. HOLIDAYS, AND FRINGE BENEFITS | 30.0 | 74.6 |
| FOR TIME WORKED | 267.5 | 392.4 |

LABOUR COST AND HOURS WORKED

CANADIAN LINES

1950 - 1959

Mr. FISHER: What is meant by "Canadian lines"?

Mr. GORDON: All our lines in Canada, exclusive of the United States.

Mr. FISHER: It does not include the C.P.R.?

Mr. GORDON: No.

Mr. CHEVRIER: Have you a graph to show what the costs are in C.N.-United States lines?

Mr. GORDON: I do not have it here.

Mr. CHEVRIER: It would be interesting to compare the labour costs and hours worked on C.N.-United States lines.

Mr. GORDON: We do not have that chart available. Would it be your impression Mr. Hunt that the United States lines would show a higher differential?

Mr. HUNT: The rate paid would be higher, but the decrease in man hours on United States lines would show about the same pattern as here in Canada.

Mr. CHEVRIER: You have not the C.P.R. figures?

Mr. GORDON: No, but we can get those figures.

Mr. BROWNE (*Vancouver-Kingsway*): Have you anything to show the difference between the running trades and the non-operating trades, or do you have them all together?

Mr. GORDON: Yes, we would have those figures for "non-ops".

Mr. BROWNE (*Vancouver-Kingsway*): But they are included in this.

Mr. GORDON: This is labour costs for the total of Canadian lines.

Mr. BROWNE (*Vancouver-Kingsway*): I was wondering if you had the same thing showing the operating trades and non-operating trades.

Mr. HUNT: It is not available here.

Mr. GORDON: But you have it?

Mr. HUNT: Yes.

Mr. CHEVRIER: Did I understand you properly when you said the C.P.R. is not included in this chart?

Mr. GORDON: No, this is C.N.R. only.

Mr. CHEVRIER: I am interested in obtaining the United States costs of C.N.R. lines.

Mr. GORDON: Yes.

Mr. CHEVRIER: But you have not it available.

Mr. GORDON: I do not have it available, no sir; but I suggest, as a generalization—and it has been confirmed,—that the trend line, in respect of hours worked, would be about the same as is shown on this graph; but the wage rate would be higher.

Mr. CHEVRIER: He did not say anything about the higher costs of fringe benefits.

Mr. GORDON: It would be just as high.

Mr. BENIDICKSON: At this point, would you relate that to the increase in freight rates? Have you an index for that? Your all-labour costs, when it rises from a unit of \$1.20 to \$2.20, works out to something in excess of 60 per cent.

Mr. GORDON: Yes.

Mr. BENIDICKSON: Now, in connection with your over-all index on freight rates—

Mr. GORDON: Yes?

Mr. BENIDICKSON: —what change would there be, comparing 1950 with 1959?

Mr. GORDON: I think we picked that up in another chart.

Mr. HUNT: Yes, in chart 28-4.

Mr. GORDON: Would you put on chart 28-4, and we will see it.

Mr. HUNT: This is the average revenue per ton mile for the complete mix, and is on an index basis. You will notice a slight increase in the index; it is about 15 per cent higher in 1959 than it was in 1950, and the figure in 1959 is about 1.6 cents.

Mr. GORDON: Does that answer your question? You know, this is not a rate curve.

Mr. BENIDICKSON: I had in mind a rate curve. What across-the-board freight increase might there have been from 1950 to 1959?

Mr. GORDON: Of course, you get into the problem again—that is, the gross freight rate increase and the effective freight rate increase.

Mr. DRYSDALE: Did you say 1.6 cents?

Mr. HUNT: Yes.

Mr. GORDON: I have not got it on the same basis, Mr. Benidickson, but I have it on an index basis 1935-39 = 100. In 1950 the average freight revenue per ton mile showed 142.5 over the 1935-39 index, and in 1959 it was 165. Now, if you measure it against the permissive level of increase you will find the 1950 figure was 145, and it went to 257 in 1959. Therefore, the permissive increase was at an index of 257, but we actually got 165.

Mr. BENIDICKSON: The across-the-board rate went up to a greater extent than the wage rates. You do not get an overall return on that?

Mr. GORDON: No. To put it another way, we have not been able to secure in additional revenue anything like the amount needed to cover the increased cost of wages and materials.

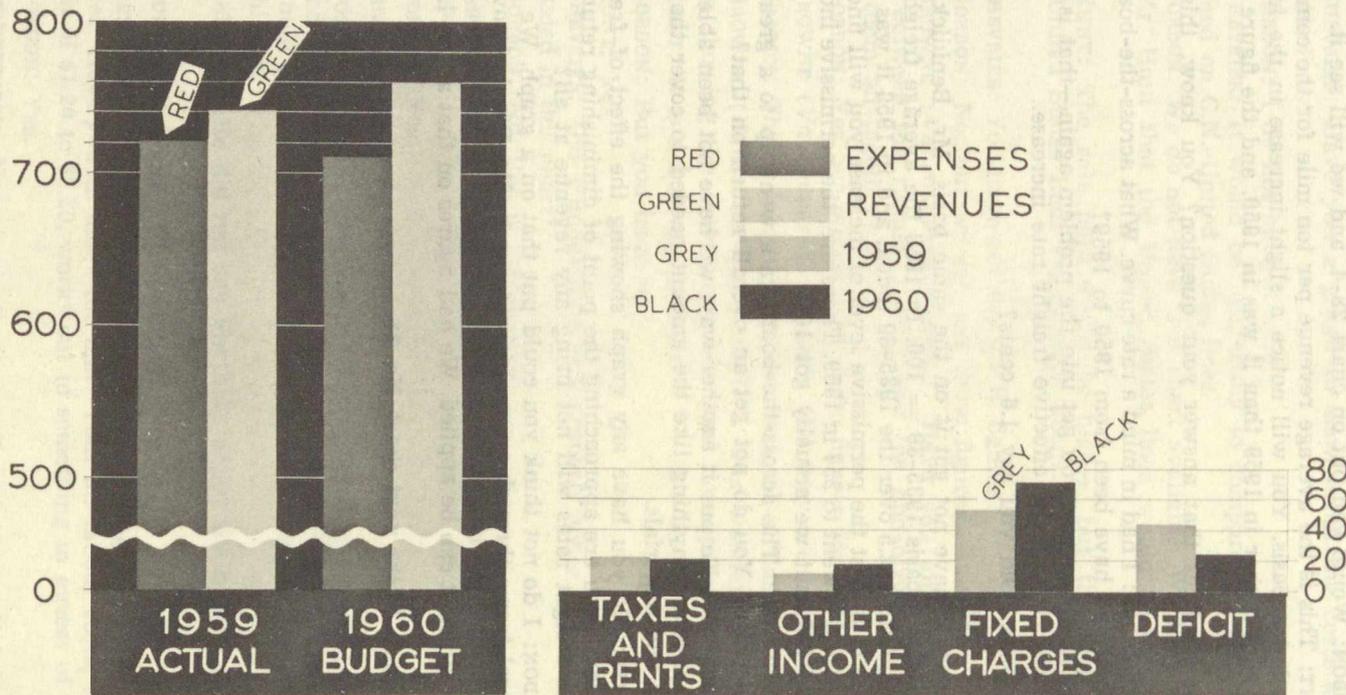
Mr. CARTER: Do you have any graph showing the effect of freight rates on revenue where you are approaching the point of diminishing returns, where an increase in freight rates will not bring any revenue at all?

Mr. GORDON: I do not think you could put that on a graph. We know this point in general terms through an analysis of our traffic. We do know that the effective yield is getting less and less. With every freight rate increase there is less traffic on which it can be applied. We had figures on that at the last freight rate case.

May we go on to the next chart, No. 31.

OPERATING BUDGET-1960

COMPARED WITH ACTUAL 1959



I N M I L L I O N S O F D O L L A R S

Operating Budget 1960

Now we come to our operating budget for 1960, in which we forecast a deficit for the year of \$24.0 million.

Before I go any further, however, I had better note the two major assumptions on which this forecast is based. The first of these assumptions is that in 1960 there will be no increase in freight rates, wage rates or material prices. I am not saying there will not be any, but for the purpose of this chart we assume there will be no increase in freight rates, wage rates or prices. Otherwise, it would be a guessing competition. The second assumption is that, compared with 1959, the volume of freight traffic, measured in revenue ton-miles, will increase by about 3.3 per cent.

You will note that our budget revenues for 1960, the green bars on the left of the chart, stand at \$760 million, roughly \$20 million higher than in 1959. This represents an increase of 2.7 per cent which is smaller than the expected increase in freight traffic mainly because we foresee a slight reduction in average revenue per ton-mile.

The red bars represent our expenses, actual 1959 vs. budget 1960. Despite the anticipated increase in traffic, we are budgeting for a decrease in expense of \$10 million, from \$721 million in 1959 to \$711 million in 1960. The improvement in productivity which this implies can be traced directly to the expected completion of some of our major capital projects.

The difference between the green and red bars represents our net operating revenue, which in our 1960 budget is roughly \$30 million higher than in 1959.

We think taxes and rents, represented by the first set of small grey and black bars, will remain virtually the same as in 1959. Other revenues, however, should increase by about \$8.0 million, \$5.0 million of which is accounted for by higher interest payments from T.C.A. to cover the cost of capital which we have borrowed on their behalf. I should perhaps mention that this transaction does not benefit C.N.R. in any way. We break even on that.

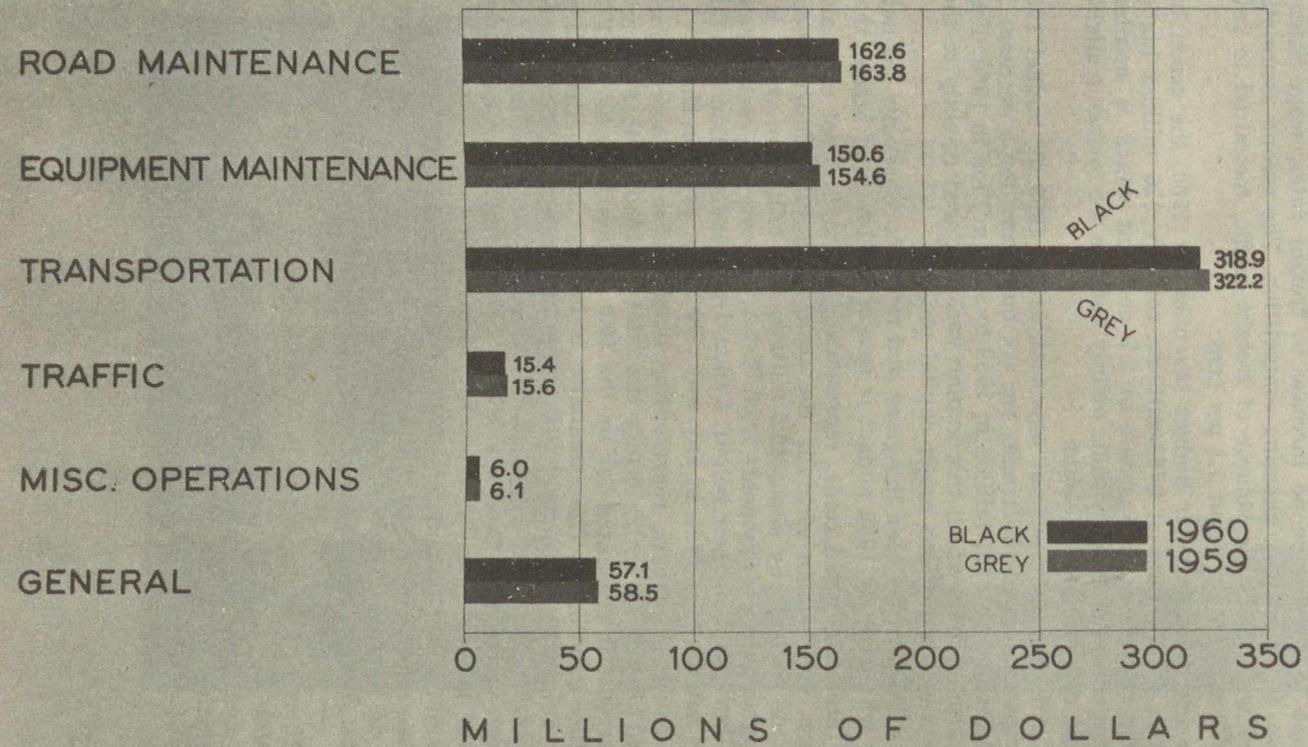
The third set of bars, representing fixed charges, shows an increase over 1958 of \$17.8 million, which brings the total for 1960 up to \$70.7 million. Part of the increase is accounted for by the \$5.0 million increase for T.C.A. which I have just mentioned. The remainder is largely due to the full year effect of refinancing \$350 million at higher rates of interest in 1959, and to the \$100 million issue which we floated, at an increase in interest cost, on January 1, 1960. Some increase in fixed charges will also result from new borrowings to finance our proposed capital expenditures in 1960.

To sum up, we are budgeting for a \$20 million increase over 1959 revenues, and we are aiming for a \$10 million decrease from 1959 expenses. This should result in an improvement of about \$30 million in the net revenue from railway operations. Taxes and rents will remain roughly constant, other income will increase by \$7.8 million, and fixed charges will rise by \$17.8 million. The budget, therefore, shows a deficit of \$24.0 million, \$19.6 million less than the 1959 actual.

The next slide we come to is slide 32. It shows the expense side of our 1960 operating budget.

OPERATING BUDGET 1960 - EXPENSES

COMPARED WITH ACTUAL 1959



Operating Budget 1960—Expenses:

This chart is designed to show graphically the breakdown of our operating expenses for 1960 compared to 1959. Once again we have used black to indicate the forecast expenditures for 1960 and grey to indicate the 1959 figures. We have indicated the expenditure for each item at the end of the various bars, in millions of dollars.

In 1960, we are budgeting for total operating expenses of \$710.6 million, which compares with an actual for 1959 of \$720.8 million. We are aiming for this reduction of \$10.2 million despite an expected increase in wage costs of \$4.6 million, which is due to agreements signed in 1959, and despite higher depreciation charges, which will add a further \$3.6 million. This means that, without these two factors, our operating expenses in 1960 would be \$18.4 million less than in 1959 despite the fact that we are facing an increased work load measured in ton-miles of approximately 3%.

This chart breaks down total expenses into the six main groups, and it is evident that some reduction has taken place in each of these groups. These reductions are mainly the result of our capital works program and a more effective control of expenses.

The next chart, No. 33, is the last one of our presentation. It shows an analysis of the deterioration in the C.N.R.'s financial position between 1955 and 1959. This chart is a rather difficult one to follow so I will give you ample time to watch carefully as Mr. Hunt points out the items which would be worthwhile bringing to your attention.

This chart compares the C.N.R.'s financial position in the two years 1955 and 1959.

Analysis of the deterioration of C.N.R.'s financial position—1955-1959

The reason why 1955 was chosen as the base year for this analysis was because the volume of traffic in 1955 and 1959 was, generally speaking, almost identical. For example, freight revenue ton-miles in 1955 amounted to 35.68 billion, compared with 35.54 billion in 1959, a difference of only 4-tenths of one per cent. In view of the similarity in work load, it was possible to make a direct comparison between the financial results in the two years. In 1955 the CNR recorded a surplus of \$11 million and as you already know a deficit of \$43.6 million was incurred in 1959. This means that over the 5-year period our net position worsened by some \$54.6 million.

The top bar of this chart shows the theoretical increase in the CNR's expenses if we had made no improvement in our operations over this period. The first section of the bar indicates that if our performance in 1959 had been no better than in 1955 our expenses would have been \$108 million higher than they were in 1955. This theoretical increase is made up of increased wage rates and fringe benefits which, assuming no improvements in performance, would have cost us \$94.0 million. Increased material and other prices would have added \$14 million to produce the \$108 million figure I have mentioned. The second section of the bar called Depreciation and Fixed Charges, amounting to \$19.3 million, represents the cost of capital involved in normal replacement projects which had to be undertaken during the period 1955 to 1959. This type of capital project does not necessarily improve the property but simply keeps it intact. For example, when one of our bridges reaches the end of its useful life it must be replaced or the railway on that section can no longer operate. This is the type of project that is covered in this last section. The total of the theoretical labour, material and capital carrying cost increases

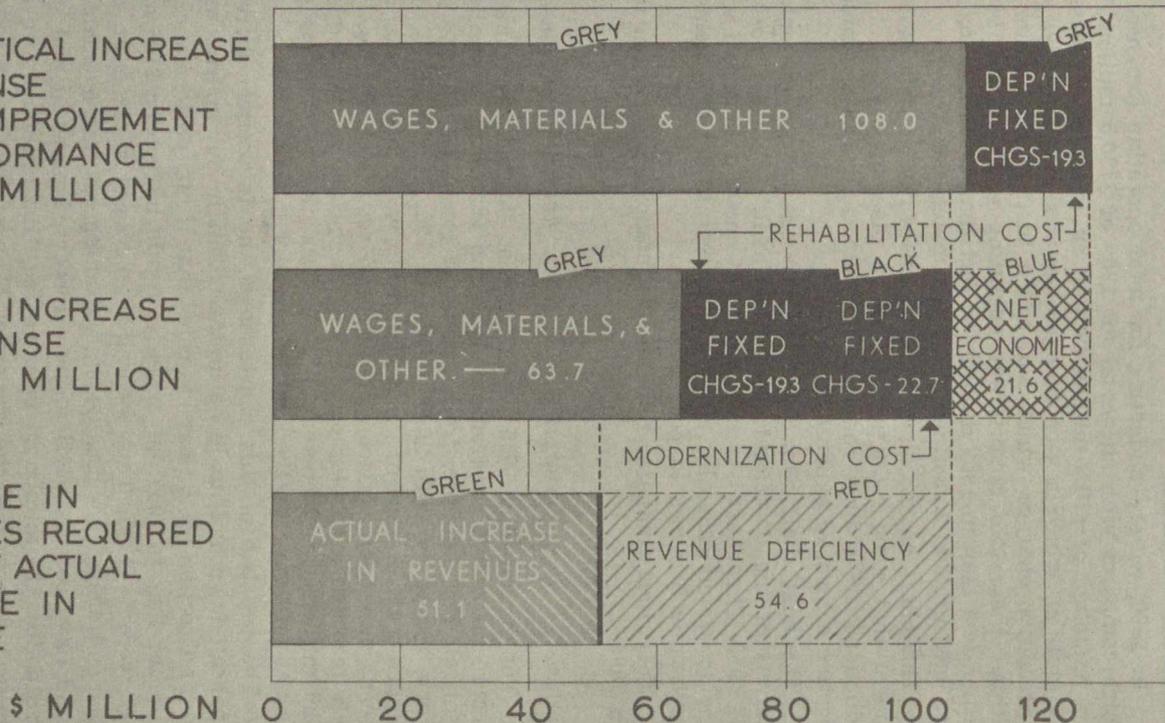
CHANGE IN FINANCIAL POSITION 1955 to 1959

| | | |
|-----------------------|---------------|-----------------|
| | 1955 SURPLUS | \$ 11.0 MILLION |
| NET FINANCIAL RESULT: | 1959 DEFICIT | \$ 43.6 MILLION |
| | DETERIORATION | \$ 54.6 MILLION |

THEORETICAL INCREASE
IN EXPENSE
IF NO IMPROVEMENT
IN PERFORMANCE
\$ 127.3 MILLION

ACTUAL INCREASE
IN EXPENSE
\$ 105.7 MILLION

INCREASE IN
REVENUES REQUIRED
TO MEET ACTUAL
INCREASE IN
EXPENSE



is \$127.3 million; and this is the amount by which our expenses would have increased between 1955 and 1959 had management taken no action other than essential maintenance.

The second bar on the chart shows that the actual increase in our expenses between 1955 and 1959 amounted to \$105.7 million. The light grey section represents our actual increased labour and material costs of \$63.7 million. The darker grey section brings forward again the \$19.3 million cost of replacement, capital, and to this is added the black area of \$22.7 million which represents the interest and depreciation on capital projects which management undertook in an effort to modernize the plant. The difference between the calculated increase in cost in bar 1 and the actual increase in bar 2 represents the net amount that has been saved during the period in question. This net saving totals \$21.6 million and is shown in blue at the right end of bar 2. Comparison of the top two bars, therefore, shows that management was actually able to reduce the effect of wage and material cost increases by a total of \$44.3 million but that in order to accomplish this saving we were forced to incur additional depreciation and fixed charges of \$22.7 million. Our net economies therefore amount to \$21.6 million.

Turning to the bottom bar of the chart, the bottom bar of the chart indicates the additional revenues that the CNR was able to obtain over the period for doing approximately the same volume of work. This is indicated in green and amounts to \$51.1 million. The solid green area, \$33.1 million, represents the value of freight rate increases, and the remainder of \$18 million resulted from increased express, communications and other revenues. The area coloured in striped red at the right end of this bar indicates the amount that the increased revenues fell short of meeting the actual increase in costs. This revenue deficiency amounts to \$54.1 million and represents the deterioration that has occurred over the period 1955 to 1959.

Trying to summarize the meaning of this chart, you will see that our problem is really threefold. In the first place, the increase in labour and material costs has more than offset the improvements that we have been able to make in efficiency through our capital works program. Although expenses are \$21.6 million lower than they would have been had we not undertaken any capital improvements, the fact still remains that there was a substantial increase in our costs. This situation in itself is very serious, but in addition the Railways have not been able to increase rates sufficiently to offset this increase in costs. As mentioned earlier and as illustrated in the bottom bar, the increased revenues fell substantially short of meeting this total increased cost. This situation has been worsened by the high proportion of borrowing in our financing and by the increase in interest rates, which together have raised the cost of the capital which we spent in an effort to keep our costs in line with revenues.

That completes our presentation. You all have noticed that we have devoted a great deal of time and many of our charts to an explanation of our capital expenditures, our future capital budgets, and the estimated income account for 1960. We have followed closely the mimeographed budget sheets which were distributed to you at the start of this meeting. I hope you have found our presentation both interesting and informative, and that it has brought into better perspective the financial structure of the Company and the extent of its operations and problems.

The CHAIRMAN: I think we have all certainly had an exhaustive illustration by Mr. Gordon of the charts. Now, Mr. Chevrier wanted to ask a question.

Mr. CHEVRIER: I wanted to ask a question or two but I suppose most, if not all, of our questions will be answered by these graphs and charts and it will probably be difficult to word them in a way that will call for the answer that is found there.

Mr. BENIDICKSON: May I make a suggestion at this point on the procedure. I have reference to Mr. Gordon's memo dated May 21 which was given to us and which reads this way: it says that it might be considered good practice to divide the sittings of the committee into two parts, first to recognize the normal pattern of any corporation in dealing with its annual report—and I think that is the point I wish to say a word about.

We started with the explanation from Mr. Gordon relating to the annual report. We have all had the annual report for a few days—not very many days—but I wondered if it would not be convenient and orderly if we simply went page by page through the annual report. For instance, if anybody has any comments about directors, that is the first thing we read about—directors—and if we just went along that way and then we go through traffic and revenues into various types of things, such as passenger, freight, etc.

The CHAIRMAN: I think, Mr. Benidickson, that was really a change in procedure, to show the charts so as to avoid reading the report paragraph by paragraph. If we proceed now to take the annual report, after all this illustrative explanation, we would only have had this thrown in extra over and above the way we dealt with it in other years.

I think when we started out we were more or less assuming that everyone had read the report and that this illustrative explanation plus the original submission which was quite exhaustive too, if you recall Mr. Benidickson—I think it was the general feeling of the committee at that time that we should proceed on this basis and ask questions, but not to go back over the annual report. I think it would get pretty boring if we took up the annual report at the present time. In the meantime I think we should hear Mr. Chevrier's questions.

Mr. CHEVRIER: I would like to ask a question or two on freight rates and the freight structure and the freight revenues. I think it is stated in the report some place and also on the graphs that the freight revenue in 1959 was \$28 million higher than the previous year. The question I would like to ask the president is, how does this amount compare with the estimate submitted to the Board of Transport Commissioners by the Canadian National Railways.

Mr. GORDON: Submitted to the Board of Transport Commissioners? You mean the freight rate cases?

Mr. CHEVRIER: You say in your report that freight revenue in 1959 was \$28 million higher than the previous year.

Mr. GORDON: Yes.

Mr. CHEVRIER: Then you also say a little farther on that the increase was attributable to the interim increase in freight rates granted by the board of, I think, 17 per cent. Well, the question I ask then is, how does that compare with the estimates submitted to the Board.

Mr. GORDON: I don't think I can pinpoint that at the moment, Mr. Chevrier.

Mr. CHEVRIER: Perhaps I can help and put it this way: the freight rate revenues for 1959 represent an increase of slightly more than 5 per cent over 1958.

Mr. GORDON: Yes.

Mr. CHEVRIER: Although you said that you got an increase of 17 per cent, the actual increase was only 5 per cent. Mr. Benidickson indirectly asked that a while ago and I wanted to pursue it.

Mr. GORDON: Well, you will remember that the 17 per cent increase was authorized and then by action of the government it was reduced to 10 per cent with a subsidy being provided for the difference.

Mr. CHEVRIER: Yes.

Mr. GORDON: The estimate that was made at the time of that 17 per cent application by the railways is the figure that you want to get in order to see how it worked out during the year?

Mr. CHEVRIER: Yes.

Mr. GORDON: Well, I have not got that.

Mr. CHEVRIER: Then, can you tell me: was the Canadian National Railways able to apply the 17 per cent of all segments of traffic, and what segments of traffic was it not able to apply the 17 per cent increase to?

Mr. GORDON: The segment of traffic on which the increase was not applied was mostly the competitive traffic, and partly agreed charge traffic. There were very few agreed charges we were able to apply the increase to, because they are on a contractual basis and increases would not be possible until the expiry of the agreements—unless there were escalator clauses.

Mr. CHEVRIER: Can you say what percentage of the 17 per cent you actually got?

Mr. GORDON: No, I cannot at the moment. You see, the 17 per cent, as I recollect it, would have to be discounted, in view of the fact that it is part of a year. I can give you the total dollars.

The CHAIRMAN: That is what you asked for.

Mr. CHEVRIER: Yes, in the first place that is what I asked for.

Mr. GORDON: The best figure I can give you is that during 1959 we received \$28,853,000 from freight rate increases.

Mr. BENIDICKSON: Which is the same as your overall increase in revenue?

Mr. GORDON: That is right,—about that.

Mr. CHEVRIER: In that respect what is the prospect for the future?

Mr. GORDON: The prospect of getting more money?

Mr. CHEVRIER: Yes.

Mr. GORDON: I would say it is very poor indeed. I think we have reached the point where any further attempt to increase freight rates will have the result of reducing our traffic, to the point where we are reducing the attractiveness of the railway as a transportation tool and I think we have almost reached the point of diminishing returns. Of course that is a generalization. We have undoubtedly reached the danger point.

Mr. CHEVRIER: I want to give others a chance, but may I ask the Minister if he could say whether or not it has been decided whether there will be an increase which the railways can request, whether or not it will be possible for the railways to make an application after the year is up to the board of Transport Commissioners for an increase?

Mr. HEES: We will announce that later.

Mr. BROOME: Mr. Chairman, may I ask a question?

The CHAIRMAN: Mr. Horner had a question.

Mr. HORNER (*Jasper-Edson*): Mr. Chairman, I hate to bring this up, but the president saw fit to make a statement in his opening remarks with regard to the Crowsnest Pass rate, which I object to very much. I think he was pre-judging the Royal Commission which is now sitting in that regard, and the opinion which he gave to the committee is completely one-sided in that regard, also. He may recall that last year we had an argument in regard to his figure for revenue per ton mile on agreed charges, and he said he could

give that figure. I do not think he should leave the impression that if and when a subsidy is paid, as has been suggested by the Canadian National Railways, to the transport segment, that this is a subsidy for western grain growers.

Mr. GORDON: May I just point out that all I have done in my commentary is to inform the committee of the submission which we made to the Royal Commission. I am reporting only. I am not pre-judging anything. I am simply reporting for the benefit of the committee that we made a submission to the Royal Commission which included these statements.

Mr. HORNER (*Jasper-Edson*): I just wanted it made clear.

The CHAIRMAN: I think it was a misunderstanding.

Mr. HORNER (*Jasper-Edson*): I would not like to leave the impression that if a subsidy should be paid it would be a subsidy relative to all people in Canada, but not to western grain growers.

Mr. GORDON: I have no doubt the Royal Commission will make its own findings in that respect.

Mr. BROOME: I should like to follow on Mr. Chevrier's point, and that is that you are not going to get very much added revenue in terms of higher rates; you will get higher revenue in carrying more tonnage as the country develops, but that means added costs. You have gone as far as you can go in the way of capital and in cutting operating costs; it is a wonderful picture in that regard. But you still have loaded yourselves with fixed charges. There seems to be only one remaining area where substantial savings could be made, and that is in the way of massive consolidation between the two railways, the same as you are talking of on your passenger lines. When I drive up the Fraser canyon and I see you maintaining your tracks on one side and the Canadian Pacific Railway on the other, it seems a waste, because you see the odd train down there and they could all come down the one line with the proper traffic control and proper scheduling. Is there something—and perhaps you would not want to answer this because this might be something you would not care to divulge—but is that not the only area where you could get to the point where you could make real major reductions in operating costs?

Mr. GORDON: First of all, I would like to say that I did not state that freight rate increase contributions were completely out. What I had in mind was that if competitive forms of transportation are able to maintain their costs when we have an increase in our costs we will become less and less competitive. If other forms of transportation are not able to maintain that position and they get into price increases also, then, of course, we will still have an area open to an increase in freight rates; so I do not rule out freight rate increases completely.

The second thing is on the general question of what might be done in respect of branch lines, and so on. This is now before the Royal Commission. Both railways are making presentations and are being cross-examined extensively by counsel, and the hearings are being held in Ottawa now. I would find it very difficult, I think, to give evidence now, while the Royal Commission is itself sitting on this problem. I think we should wait until the Royal Commission brings in its findings. Next year we can have a field day on it!

Mr. BROOME: I think you had a \$4 million figure set aside for improvements at Calgary. Calgary is well serviced by the Canadian Pacific, and you very well service Edmonton. Can you not get together and consolidate somewhat?

Mr. GORDON: Well, you see we have reached the point where we can get benefits out of major improvements like our hump yards. There will be major savings in that respect.

Mr. BROWNE (*Vancouver-Kingsway*): I wonder if you can tell me what percentage of the revenues was obtained from agreed charges?

Mr. GORDON: I have not got the percentage, but I can give you the figures, and if you have a calculator you can figure it out. In 1959 we took in revenue of \$56.3 million from our agreed charges.

Mr. BROWNE (*Vancouver-Kingsway*): Since the Act was amended in 1955 has there ever been an appeal made in respect of an agreed charge?

Mr. GORDON: Certainly not a successful one.

Mr. DRYSDALE: Have there been any?

Mr. GORDON: I do not recall one at the moment—not since the amendment to the Act, as far as I recollect.

Mr. BROWNE (*Vancouver-Kingsway*): I was not on the committee last year, but on reading the report there seemed to be some confusion about the status of agreed charges.

My understanding at the present time is that the Board would have no right to review agreed charges of their own volition; is that correct?

Mr. GORDON: Would you say that again?

Mr. BROWNE (*Vancouver-Kingsway*): My understanding is that the Board of Transport Commissioners would have no right to review an agreed charge.

Mr. GORDON: That is not our understanding. There are several methods of complaint that can be undertaken. In section 33 of the Transport Act there is a procedure set forth. Also, my legal department informs me that in their opinion the Board of Transport Commissioners can, on their own motion, review any rate.

Mr. BROWNE (*Vancouver-Kingsway*): Does the Act not state at the present time that an appeal cannot in any event be made until the rate has been in effect for three months, but even then the number of people who can appeal is very limited? The only function of the Board in connection with agreed charges is to accept them, and they then become effective within 15 days?

I do not think there has ever been an appeal, as you have said.

Mr. GORDON: But the Act sets out the procedure under which it can be done.

Mr. BROWNE (*Vancouver-Kingsway*): It does not say anywhere in the Act that the Board can review an agreed charge of its own volition.

Mr. CHEVRIER: The Railway Act covers that.

Mr. GORDON: Section 33 of the Transport Act reads:

(Subsection:) (1) Where an agreed charge has been in effect for at least three months

(a) any carrier, or association of carriers, by water or rail, or

(b) any association or other body representative of the shippers of any locality may complain to the Minister that the agreed charge is unjustly discriminatory against a carrier or a shipper or places his business at an unfair disadvantage, and the Minister may, if he is satisfied that in the public interest the complaint should be investigated, refer the complaint to the Board for investigation.

Then subsection (2) says:

The Governor in Council, if he has reason to believe that an agreed charge may be undesirable in the public interest, may refer the agreed charge to the Board for investigation.

(3) In dealing with a reference under this section the Board shall have regard to all considerations that appear to it to be relevant, including the effect that the making of the agreed charge has had or is likely to have on the net revenue of the carriers who are parties to it, and in particular shall determine whether the agreed charge is undesirable in the public interest on the ground that it is unjustly discriminatory against any person complaining against it or places his business at an unfair disadvantage or on any other ground, and, if so directed by the Governor in Council in a reference under subsection (2), whether the agreed charge is undesirable in the public interest on the ground that it places any other form of transportation services at any unfair disadvantage.

So the procedure is spelled out in the Act. You asked me whether the Board, of its own motion, could investigate an agreed charge, and my reply to that is that my legal department informs me that in their opinion the Board of Transport Commissioners, under their general powers—quite apart from anything in this act—could initiate an investigation on their own account.

You may remember that the case of incentive rates about two years ago, certain truckers—I will not say truckers; but certain complainants, at least—asked the Board to hear the case because—

Mr. BROWNE (*Vancouver-Kingsway*): Incentive rates are not included under the same category as agreed charges.

Mr. GORDON: No, but “incentive rates” was an example of the procedure I had in mind. The Board found that it did not have jurisdiction; but at that time the Board took it under its own advisement and conducted an investigation on its own account.

Mr. BROWNE (*Vancouver-Kingsway*): I agree that incentive rates are—

The CHAIRMAN: Mr. Browne, could you face this way and speak up so that the reporter can hear you?

Mr. BROWNE (*Vancouver-Kingsway*): My understanding is the law requires that all agreed charges be compensatory.

Mr. GORDON: Yes.

Mr. BROWNE (*Vancouver-Kingsway*): Has the board, at any time since the amendment to the Act in 1955, asked you to prove to them that any particular charge was in fact compensatory?

Mr. GORDON: I could not answer that; I do not know. There may have been. As far as I know, there was no case before the Board I could not answer at the moment, whether the Board has ever investigated I would have to check on that.

Mr. BROWNE (*Vancouver-Kingsway*): I wonder if that information could be obtained?

Mr. GORDON: The Board of Transport Commissioners would be the ones to give you that information. I can only speak for the C.N.R.

Mr. BROWNE (*Vancouver-Kingsway*): It is with regard to the C.N.R., in particular, that I am inquiring.

Mr. GORDON: I think the appropriate place to make that inquiry is at the Board of Transport Commissioners.

Mr. BROWNE (*Vancouver-Kingsway*): I want to know if C.N. Railways has ever had to appear before the Board.

Mr. GORDON: Not to my recollection.

Mr. BROWNE (*Vancouver-Kingsway*): I would like to know if I could have a definite answer to that question. Can the information be obtained through your officials? As you are going to be here for some time, perhaps you could obtain that?

Mr. GORDON: My answer is that there has been no official case, to my knowledge.

Mr. BROWNE (*Vancouver-Kingsway*): How do you arrive at whether the rate is compensatory or not?

Mr. GORDON: We have a costing section, and we have had defined many times what such a rate is. It is compensatory when it can be shown to be reasonably remunerative to the carrier—and I have the definition—in that it: (a) returns the out-of-pocket cost of performing the service, that is the long-term variable cost; (b) provides for a reasonable contribution to general overhead; and, (c) does not cast any undue burden on other traffic.

If you want another definition, it has been defined this way:

All segments of freight traffic should contribute their variable costs or their out-of-pocket costs plus a fair contribution to total costs.

Mr. BROWNE (*Vancouver-Kingsway*): I wonder if it would be possible to get a hypothetical case—

Mr. GORDON: No.

Mr. BROWNE (*Vancouver-Kingsway*): —as to what factors should go into that?

Mr. GORDON: I do not think we should be asked to disclose that. I think that is revealing information to our competitors, which would be very interesting indeed to them. I do not think we are prepared to disclose that information.

I am telling you, in a general way, that we are prepared at any time to defend an agreed charge rate before the Board of Transport Commissioners on the basis that it is compensatory.

Mr. DRYSDALE: Practically, nobody can challenge that?

Mr. GORDON: They can follow the provisions of the act.

Mr. BROWNE (*Vancouver-Kingsway*): The way that Act is at the present time, I cannot imagine a shipper complaining because the charge is at too low a rate. If rates are in fact too low in some instances, perhaps they are too high in others. There is no way of finding whether some of these rates are lower than what they need be. There is nobody in a position to challenge that?

Mr. GORDON: I do not think we can turn this into an inquiry with regard to agreed charges, as to whether or not specific ones are or are not compensatory.

I am telling you, on my responsibility as president of the C.N.R., that all our agreed charges are on a compensatory basis, and we are prepared to prove that when it is properly challenged.

Mr. BROWNE (*Vancouver-Kingsway*): I am not disputing they may be compensatory, but what are the factors you take into consideration in determining what is compensatory? I would like to know exactly what items are taken into consideration.

Mr. GORDON: All the necessary items that a proper cost accounting system would take into consideration.

Mr. DRYSDALE: When you say these charges are filed at the Board of Transport Commissioners, how could anybody looking at them tell whether

they are compensatory or not? You said the only person who could challenge them is either the Governor in Council, or a shipper who presumably was getting the article under a similar bond.

Mr. GORDON: The persons who would be qualified, I suppose, to determine whether or not they were compensatory would be the skilled observers of the Board of Transport Commissioners, and that is the only group I know that would have the competence to do it.

We would certainly resist disclosing that type of information, which would be of great advantage to our trucking competitors. We would oppose revealing that information if we were asked for it.

Mr. FISHER: On a point of order—

The CHAIRMAN: Mr. Fisher, do you want to make a point of order?

Mr. BROWNE (*Vancouver-Kingsway*): You suggested earlier in your statement you require, on the question of rates—

The CHAIRMAN: Just a minute, Mr. Browne. Mr. Fisher is raising a point of order.

Mr. FISHER: I do not want to suggest that a Royal Commission makes a house committee sub-judice, but I would like to suggest that we should consider seriously the fact that this type of discussion relates to what is going on before the Royal Commission on transportation, rather than to the specifics of the C.N.R. end of the report.

I am going to suggest to Mr. Browne—and I have strong views on agreed charges, but I am going to take the opportunity to appear before the Royal Commission to present them—that in this case we would get further if we could get Mr. Browne to go along with this and allow us to get on with the report, in its specifics.

Mr. BROWNE (*Vancouver-Kingsway*): I think I am in order. This is an inquiry into the operations of the C.N.R. I think agreed charges are part of the revenue and, therefore, I think it is proper to inquire into that matter. Mr. Gordon told us earlier that he required a revenue of 1.07 cents per ton mile on grain.

Mr. GORDON: That was my submission to the Royal Commission.

Mr. BROWNE (*Vancouver-Kingsway*): Would it be fair to say that grain is a large percentage of the volume of traffic and that it would be difficult to find anything any cheaper than that.

Mr. GORDON: I am not going to be drawn in to give opinions of that kind. I do not think it is correct to ask me that question. As I take it, the purpose of your question is to get me to reveal the costs in respect of agreed charges. I have said already that I do not think that is a question that I should be asked to answer because it is injurious to the interests of the C.N.R. from a competitive point of view.

The CHAIRMAN: Now, gentlemen, we have to proceed in an orderly way, and I think Mr. Fisher's point of order is well taken. If it is not, then we must open the committee up for Mr. Fisher's questions. He says he has strong views as well on this subject.

Mr. DRYSDALE: If that is correct, we cannot discuss the C.N.R. at all, because they have put their whole operation before the Royal Commission.

The CHAIRMAN: I would not go so far as to say that.

Mr. SMITH (*Simcoe North*): Mr. Chairman, I have a few questions concerning freight traffic. Has your company considered, being competitive with trucking interests in freight, the policy of picking up freight from the shippers location and, at the terminal end, delivering it to the person to whom it is shipped?

Mr. GORDON: As I said in my preliminary statement this morning, we have a very intensive examination under way. We are engaged in trying to establish a trucking organization that will have the purpose of complementing railway transportation. In accordance with that sort of approach we have established a department of merchandise services. It was established in April of last year.

The purpose of the department of merchandise services is to rationalize and coordinate the various media of rail or highway transport which are or will be available in order to make the railway as competitive as good practice dictates in that area of transport where the highway carrier attracts traffic because of speed and flexibility of service, as well as in the smaller area where the highway carrier now enjoys a cost advantage.

The ultimate goal of merchandise services, which is beginning to get going is to present to the shipping public one department, one set of rates, one solicitation force, one form of documentation for all non-carload traffic. Before this goal can be reached, radical changes must be planned and tested for a basic scheme of collection, transit and distribution across the country.

Among other things, this involves constant scrutiny, assessment and adjustment, where required, of rates dealing with all types of merchandise traffic with a view to improving our competitive position and net revenues.

Eventually it is anticipated that the railway will have a combination of rates and service on other than carload traffic that will permit solicitation directed specifically to non-carload traffic with the same effort and cohesion that is now being expended on carload traffic. In the course of doing that we made a start in the maritime provinces and between central Canada and the maritime provinces, on the necessary basic distributing plan for the various types of non-carload traffic. The term "railhead" is used to describe this plan and involves the dispatch of heavily-laden box cars and/or trailers on highway or flat cars to a centrally situated "railhead" location, loaded with freight for various destinations, from which point final distribution is made, usually by highway vehicle. "Railheads" have been established, among other places, at Campbellton, Edmundston, Moncton, New Glasgow and Halifax.

The broad application of the "railhead" principle, which I take it is what you have in mind, will be expanded across the country in varying degrees consistent with the amount of freedom allowed by individual provincial regulatory bodies. In doing that it will be our intention to eliminate quite a number of existing freight sheds. We will establish the freight shed at the railhead point and bring in the railway freight in as heavily laden carloads as possible; we will use these railhead points as distributing centres across the country.

Mr. SMITH (*Simcoe North*): I have two more questions following from that. Even on an experimental basis where you now abandon an unprofitable or unwarranted service, do you make any attempt to hold the business that was there for you by means of truck supplement?

Mr. GORDON: Yes, indeed. We always have that in mind if we possibly can. In some cases where the reason for the abandonment would be the existence of an alternative service, it is not our intention to establish a trucking service in competition with that existing service. What we are endeavouring to do is build up a pattern of truck lines and existing franchises which will enable us to cover Canada from coast to coast.

Mr. SMITH (*Simcoe North*): In your policy in purchasing truck lines, have you any specific policy of trying to purchase, first, local shippers who can complement your service or who can be used as a source of producing long-range shipping, or do you try to buy a line which will in a sense parallel your railroad lines to the same long-range destinations?

Mr. GORDON: We have had quite a number of operators who have offered themselves for sale. What we are trying to do now, and we are at a very early stage, is to pick and choose in such a way so that we will form a backbone of trucking service which will be on a coast-to-coast basis. We may select any particular trucking operation which might fit into that plan; but we do not want to duplicate or overlap.

Mr. SMITH (*Simcoe North*): I do not quite understand why you want coast-to-coast trucking service. I seem to be a little confused on that subject. It would seem to me that you would be more interested in providing a trucking service which would truck, say, within a metropolitan area and thereby generate coast-to-coast shipping for your railway.

Mr. GORDON: Because there are many instances where the traffic that is operating under modern conditions is not best handled by the railway.

Mr. SMITH (*Simcoe North*): Even for long distances?

Mr. GORDON: Yes. There is lots of it. It is developing more and more. There is the type of traffic where the flexibility of trucking is the competitive factor.

Mr. BROOME: I would like to come back to what I consider the core of the whole thing, and that is the deficit. I know Mr. Gordon would like nothing better than to come here every year with a surplus.

Mr. GORDON: I hope I live that long!

Mr. BROOME: In the last 15 years there have been only four years when we have had a surplus. I have been adding them up, and I anticipate that from 1950 to 1960 there will be \$158 millions of deficit. From the management point of view of the railroad, do you anticipate that this will always continue?

Mr. GORDON: No.

Mr. BROOME: Do you anticipate that the Canadian National Railways will, after a while carry itself, and if so, what are the plans which will make it do so?

Mr. GORDON: You have to keep this in mind, that in the period you are mentioning we have had to embark on a major rehabilitation and modernization of the railroad. The railroad came out of the war in a physically exhausted condition. It had been starved before the war, as I have said on previous occasions, and capital expenditure on the railway had been kept down to the lowest possible point. This was after the Sir Henry Thornton regime when the management was on more or less a trustee or a caretaker basis, if you want to put it that way. Then came the war to which the railway forces responded magnificently, but nevertheless on a basis of improvisation. Added to that was the fact that during the war the supplies were not available to keep the railway properly maintained. That is why you will notice that in a number of these presentations I have shown the background of maintenance and that sort of thing. To carry this story on by the time I arrived on the job we had a railway physically exhausted, not only because of the war, but by reason of the fact that supplies of material were not available. This coincided with the emergence of dieselization which has been a tremendously expensive thing. It has run up to nearly \$500 million of capital.

You must look ahead to the time to when we will have the rehabilitation of the railway finished. Dieselization will be completed this year. Major terminals, improvements are in play; but it will still be some time yet before all of this is completed. The planning for Toronto is scheduled a few years ahead—say in 1964. So I say that all of these capital projects have to be finished before you can form a proper judgment as to whether or not the Canadian National Railways can stand on its own feet.

Mr. BROOME: Do you anticipate that it will do so, after that?

Mr. GORDON: Depending on whether wages and other costs can be held in proper relation to the prices that we are able to get for our services.

Mr. BROOME: You say whether or not wages and other costs can be held relative to the prices that you are able to get for your services?

Mr. GORDON: Yes; and there is a further consideration which we must always keep in mind, because it is vital. It is that if costs on the railway keep going up to the point of making us less and less competitive, then the only remedy is to reduce the plant and to reduce employment. Sixty-five cents of our expenditure dollar today are spent on labour—and other railways as well as our own are in the same category. This is not peculiar to the Canadian National Railways—there is no way to shrink the plant of the railway without displacing labour.

Mr. BROOME: Now, the other point—and this might be rather unfair—is there any way whereby you can make operating comparisons with the Canadian Pacific railway?

Mr. GORDON: Yes.

Mr. BROOME: Would it not be a good idea perhaps for another year to make operating comparisons between the Canadian National and the Canadian Pacific?

Mr. GORDON: Yes, we can do that. One of the difficulties is getting it up to date. The Canadian Pacific report is not out yet, and I do not have the current figures.

Mr. CHEVRIER: May I come back to the question of the truck operation and ask whether you have established a trucking corporation within the Canadian National railways system?

Mr. GORDON: This is done through the Canadian National Transportation Limited which is a company, you may recollect, that was formed away back in 1926. We have had various trucking operations in that company, but we are using it as the medium to coordinate the trucking companies that we may acquire.

Mr. CHEVRIER: Have you got any trucking companies in operation within the last few years?

Mr. GORDON: Oh yes, I said that in this morning's statement. But, the way I said it then—and I want to say it carefully because I don't want it to be anything less than absolutely correct—

Mr. BROOME: I think you said there was \$5 million for that.

Mr. GORDON: I will just repeat it. As at December 31, 1959, no purchase had been actually completely consummated. However, for the information of the committee I might say that at the end of February of this year we had in commitment through option or otherwise units of purchase in round figures involving an investment by the Canadian National railways of \$5 million.

That means that we have certain companies more or less under our direction, but the technical ownership has still not been worked out legally or otherwise.

Mr. CHEVRIER: I had made a note of it and I wanted to ask two questions, whether or not you had purchased the truck operations on Prince Edward Island and, secondly, whether you had purchased or had under option the Smith Transport.

Mr. GORDON: That is Canadian Pacific railway. They purchased that.

Mr. CHEVRIER: I must have been asleep then.

Mr. BENEDICKSON: Mr. Gordon, was the \$5 million new last year for this purpose? I notice there is another \$5 million added in the current year in the capital budget. Was last year's \$5 million the first of the new program?

Mr. GORDON: That is right, yes.

Mr. BENIDICKSON: And another \$5 million this year?

Mr. GORDON: Yes.

Mr. BROWNE (*Vancouver-Kingsway*): Are you able to give the nature of any of the trucking companies?

Mr. CHEVRIER: What about the Prince Edward Island trucking operation? I was put off base with the Smith Transport. I wonder if I could get an answer to the other question.

Mr. GORDON: Well, as I said in my opening remarks—and I would ask the committee to be patient with me because it may look as though I am dodging, and you know that I never do that—My position is this: a certain trucking pattern which involves companies have not cleared the legal formalities of which have not been straightened out, embraces such things as franchises and financial adjustments in regard to the ownership, and so on. So that the thing is in a state of flux at the moment, and I would rather not be drawn into a statement in regard to individual companies. If I start with one, I suppose you would be entitled to get them all, but we will be in a position very soon where we can make a statement. However, premature disclosure would, I think, hurt negotiations which are now in process.

Mr. CHEVRIER: Well, I will not insist.

Mr. BROWNE (*Vancouver-Kingsway*): I do not want to put you in that position, but I wonder if possible when you examine the situation, when they are purchased and completed, if we could obtain that information from you.

Mr. GORDON: Yes, we will announce it publicly.

Mr. BROWNE (*Vancouver-Kingsway*): Do you expect that that will be shortly?

Mr. GORDON: It should be on some of them.

Mr. FISHER: Mr. Gordon, last year you expressed the opinion that if you were found to be in the position of an inefficient manager you should be fired?

Mr. GORDON: I said the "lot of us", not just me!

Mr. FISHER: Having in mind the last standing report—and I am not going to document this—but it seems to me there have been some errors in prognostications of a fairly substantial kind. I think there was more optimism than has been justified on the results and I just wonder, Mr. Gordon, whether you would care to express any views on that, as to what are several 'boobs' you feel have been made by the Canadian National Railways' management in recent years, if any.

Mr. GORDON: I do not understand that question.

Mr. FISHER: You have made no mistakes?

Mr. GORDON: I would be the last to claim perfection; but if you are referring to our big program of capital expenditure—

Mr. FISHER: Yes, exactly.

Mr. GORDON: If you are referring to the big program of capital expenditures I think it has worked out reasonably well. I cannot think of any major item—if I may—that I would not again recommend. Certainly the dieselization program was a "must".

Mr. FISHER: I come back to that graph you had, which is going to be going the rounds for quite some time, the one that shows manpower hours. I see here wages and such are going up.

Mr. GORDON: Yes.

Mr. FISHER: This indicates that there was a variable which you did not count on.

Mr. GORDON: I think you have the wrong slant there. "Manpower hours" as you saw it on the chart means fewer employees.

Mr. FISHER: I quite agree. But the other one is sky high.

Mr. GORDON: In wages?

Mr. FISHER: Yes.

Mr. GORDON: I wish you would come and talk to the unions about it.

Mr. FISHER: I will go into it in detail later, but is this not one place where you made errors in judging the future when you were selling the committee and previous ministers of transport on what those capital expenditures were going to do?

Mr. GORDON: No, sir. You will find that I very carefully qualified that any estimates I made were on the assumption that our wages and revenues would stay on a relative basis, and I do not at any time undertake that I can control the wage level of railway labour or the value of the dollar.

Mr. FISHER: So we are coming down now to the place where, when we look at those statistics, the thing hits us right in the eye—labour costs; is that it?

Mr. GORDON: Apparently; and also material costs. Remember, the value of the dollar has changed over the years since I started our programme.

Mr. FISHER: You are not going to say, like Mr. Crump, that the one thing wrong is the Crowsnest pass rates?

Mr. GORDON: He said the only inequity in the freight rate structure was the Crowsnest rates. He did not say that they were the only problem facing the railways.

The CHAIRMAN: We will have Mr. Horner now; he wants to say something.

Mr. GORDON: On that point—it is very difficult to express these things properly. The general statement by Mr. Crump to which you referred was made on the basis, that all other freight rates in the country generally speaking are made on the principle of normal fluctuations—the Crowsnest Rates are the only ones where that principle cannot be applied; and therefore in that sense there is an inequity. That is the interpretation.

Mr. HORNER (*Jasper-Edson*): You do not think because it is the only one that is a statutory rate and controlled by the Government it is the only one the railways and everyone else can take a jump at without hurting anyone—except the Government?

Mr. GORDON: I don't follow that.

Mr. HORNER (*Jasper-Edson*): In other words, it is a Government thing.

Mr. GORDON: It is the only rate type of which because of statutory control, is removed from any form of managerial judgment. And we are prevented from going to the Board of Transport Commissions to apply for an increase—in the same way as we would with any other freight rate. This is the only freight rate where we are deprived of that privilege. I say we have not the privilege of going to the Board as we can with others.

Mr. HORNER (*Jasper-Edson*): I agree that is a fact; but I also say because it is a fact it is the main whipping boy of the whole freight rate structure.

Mr. GORDON: That is your opinion.

Mr. FISHER: I want to follow on in my question about mistakes. I want to suggest to Mr. Gordon that this graph of the labour costs is becoming a real rough spot, and since you entered into agreement with some of these particular parties, some of the responsibility rests on you there.

Mr. GORDON: Not at all. We were forced into these agreements. I want to remind you we had a strike a few years ago and Parliament passed arbitration legislation.

Mr. FISHER: But surely if compulsory arbitration came into the picture, that would indicate that you did make a very good case?

Mr. GORDON: The legislation set the limits. If you look at the legislation, you will see that we had no opportunity to argue the case.

Mr. FISHER: But before the case went to arbitration, surely you presented your case to the joint negotiating committee?

Mr. GORDON: Of course we did.

Mr. FISHER: And failed completely in putting—

Mr. GORDON: We are going to be sitting before a conciliation board very shortly, and we will produce our case as best we can. Looking over past cases, I think you will find with one exception that when a conciliation board brought in its findings, railway management accepted them. However, the unions refused to accept the boards' findings and instead use their economic strength. That is the difficulty we are up against. That is why a different form of arbitration seems to be necessary.

Mr. FISHER: Can you think of any other aspect of the future that is ahead of us, in your projections, in which you can go some way in cutting down your deficit, other than this problem of wages?

Mr. GORDON: I think it is the major problem, for the reason I already gave, that 65 cents out of our expense dollar goes to labour; and that is just too much in relation to what the plant is able to produce in the way of earnings. Therefore, the only remedy I can see—and please do not think for a moment that I am intending to scold labour, because I do not mean that; I am only dealing with the facts—the only way I can see, as manager of this property, is to increase our efficiency so as to reduce the costs of our product. That is in part what we have been doing with our capital investment—and, as we have shown you on the charts, we have succeeded to a point, but not enough.

Mr. FISHER: You did give a tentative reply to Mr. Broome that one of the ways of doing this in the future would be to curtail operations.

Mr. GORDON: Yes; if we find the service the railway provides is not competitive and can be handled by competing forms of transportation, then, as far as I am concerned, the railway should give up.

Mr. FISHER: Has not that point been arrived at, as far as the trans-continental passenger service is concerned?

Mr. GORDON: You are opening up another "can of worms", if I may say so. The whole passenger approach, as I said this morning, is that up until fairly recently there has been implicit in railway operation a feeling of obligation to run passenger services.

As I said, we believe the time has now come to challenge that assertion and we should try to get out of all services which are not earning their keep. The C.P.R. and ourselves are at it now, from that point of view, to see if we can work out a sensible agreement in regard to types of abandonment. But this is another subject which is very, very much before the royal commission.

The western counsel throughout has challenged us,—right through the piece,—about passenger deficits and we have been asked to provide a brief on the subject, which is now in the course of preparation. It will be heard here in Ottawa. So I say there will be ample opportunity for a complete exploration of this question.

Mr. BROOME: That is the area which is the least productive for you, where you have the greatest losses in your system, in regard to expenses—outside of the Crowsnest pass?

Mr. GORDON: The costing of passenger services is a very complex and difficult job. Our experts are working on it and have come up at the moment with three different answers. I am trying to select, at the moment, which one I want to use. I cannot be more frank than that, can I?

Mr. SMITH (*Simcoe North*): I have one question relating to the deficit relating to the trucking business. As you purchase these trucking companies to complement your service, the charge is no doubt going to be brought by someone that you will use tht deficit in order to cut your trucking rates and thereby give you unfair competition against other truckers.

What steps are you taking to answer that charge, or to make sure the charge, when it does come, has no validity?

Mr. GORDON: I would hope to be able to answer that charge by asserting that any trucking operation we acquire would return us a profit. I do not know a more effective answer than that.

Mr. BROOME: Would your statement be so set up that that would be shown up?

Mr. GORDON: I would hope so. That is certainly what we are trying to do. We are trying to set it up now. This trucking organization is very much in its early stages, and our objective, as management, is to set it up that we will be able to demonstrate that we are obtaining a return on our investment.

Mr. BENEDICKSON: This morning, and again now, some reference was made by Mr. Gordon to the future of the passenger service. He made a statement this morning that he did not look with much favour upon the type of pooling of passenger service, such as we know between here and Toronto—I assume that is what you had in mind?

Mr. GORDON: Yes.

Mr. BENEDICKSON: That kind of pooling or amalgamation was entered into the terms of the C.N.R. and C.P.R. act, was it not?

Mr. GORDON: Yes.

Mr. BENEDICKSON: Have you taken some steps of that type in the communications field lately? I am hearing of it at the lakehead, where one finds a C.P.R. telegraph office and a C.N.R. telegraph office. There is some excitement about the amalgamation of your services there.

Mr. GORDON: This particular case you are mentioning is before the Board of Transport Commissioners now, so I do not think it would be very appropriate for me to try to pre-judge it; but I do not mind saying I expect them to find in our favour. That is not a pre-judgment, but only a hope.

Mr. BROOME: It is a matter of opinion.

Mr. GORDON: We do intend to examine the whole area of our communications field and, again, the C.P.R. and ourselves are intending to make a very close examination of the telegraph message traffic to determine to what extent it would be possible to enlarge the agreements which we already have in the communication field. The aim is to avoid duplication and reduce.

As you know, in the microwave business generally the Canadian Pacific and ourselves have co-operated for quite a number of years. Coupled with this question of the telegraph message traffic is the problem of the communications systems of both railways which are required for the operation of trains. Hitherto this has been regarded as a matter functionally tied to the operations of each railway system.

The proper answer to your question is that the tremendous development in techniques in communications has opened up possibilities which until recently would not have been practicable. Consequently, the management of both railways is examining the subject, to see in what way the duplication of offices and facilities could be avoided. This is a highly technical field and progress will call for patience and perseverance on the part of all interests involved. It will produce of course difficulties in connection with labour, such as you mention at the Lakehead.

Mr. BENIDICKSON: I was referring to this application which you say is before the Board of Transport Commissioners. Does it relate solely to some form of pooling or amalgamation at the lakehead?

Mr. GORDON: Yes, for the two cities, to have one office there instead of two.

Mr. BENIDICKSON: Would it be necessary for you to go to the Board of Transport Commissioners again, for each subsequent application with regard to duplication, that form of thing?

Mr. GORDON: I would hope not, but that is a question of legal interpretation and I am not at the moment equipped to answer.

Mr. BENIDICKSON: Is it your idea the application is one of blanket approval?

Mr. GORDON: No. As a matter of fact, I do not mind confessing I was amazed when I learned we needed the Board of Transport Commissioners' approval for this type of thing.

Mr. CHEVRIER: Is not this limited to this particular type of thing? It would not apply to others?

Mr. GORDON: If we are able to work out a joint system where we service each point and eliminate duplication, I would hope we would not have to go to the Board of Transport.

Mr. BENIDICKSON: Do you know that this is made under the C.N.R. act?

Mr. VAUGHAN: The application is not made under that act.

Mr. CHEVRIER: It is made under the Railway Act.

Mr. VAUGHAN: That is my understanding.

The CHAIRMAN: Now, gentlemen, it is 6 o'clock and we will adjourn until 8 o'clock. Is that satisfactory?

The committee took recess.

EVENING SESSION

TUESDAY, March 29, 1960.
8 p.m.

The CHAIRMAN: Gentlemen, will you come to order please.

Mr. HORNER (*Jasper-Edson*): Mr. Chairman, I would like to ask the president in respect of trucking if the C.N.R. has considered whether in the search for a complementary trucking industry they had considered the idea of leasing trucks or trucking service from private operators which, it seems to me, might cut down the capital maintenance cost which accrues to the C.N.R. and might also help in the question, as the president has stated, of the high capitalized position of the C.N.R. at the present time. This might cut it down. It also seems to me it would help the private trucking industries and allow them perhaps to do other trucking besides that for the C.N.R. I think I asked this last year.

Mr. GORDON: There is no variation of the trucking operations which we do not have under consideration. We are prepared to take whatever type of trucking operation seems to make sense, from the economic standpoint, so we certainly would not rule out your suggestion. However, it would depend upon whether or not it happens to fit any particular circumstance.

Mr. HORNER (*Jasper-Edson*): I am thinking particularly of an area in which a full-time trucking concern would not be economically feasible.

Mr. GORDON: That is right. We might enter into an arrangement in such a smaller area if we found it would suit us to make a leasing arrangement with an operator.

Mr. CHEVRIER: Might I have a word on these extensions of the C.N.R. which have been built from 1951 on. I believe there is some six or seven hundred miles involved. Could Mr. Gordon tell us what has been the experience from a financial standpoint in respect of those lines? First I would like to know whether or not they have lived up to the expectations of the railway.

Mr. GORDON: I have submitted on an earlier occasion what the prospect is for the future. With the exception of the Manitowadge-Hillsport branch line which was built for competitive reasons and the St. Felicien-Cache Lake line for which the railway received a subsidy from the government, guarantee agreements or other traffic arrangements were negotiated with all the industries in the area in which we built the lines.

These arrangements vary with the type of traffic. Some were on a guaranteed tonnage basis and others on a gross revenue basis. Our position is that none of these traffic guarantees has had to be implemented, with the exception of the Bartibog-Heath Steel mines, where all operations have been temporarily suspended. In some cases the overall guarantee already has been met. For example, the Kitimat line has produced the traffic we stipulated, and therefore the guarantee has been met. International Nickel Line is a case in point. Generally speaking the lines are doing better than expected, in the sense that they have met in some cases the traffic guarantee. However, it is as yet too early to give more than a rough indication, because in some cases the lines are barely open.

Mr. CHEVRIER: There is one in particular. Unfortunately, I do not have the reference. I am looking at the budget now. It is a case in which the line has been completed for some time. I think the first one was the Sherridon-Lynn Lake line.

Mr. GORDON: The first was the Barraute line. That has been discharged. That line has moved the traffic they undertook to provide as the basis of the guarantee. Therefore, they are wholly free.

Mr. CHEVRIER: What about the extension from Beattyville to Chibougamau? Is it too early to give that?

Mr. GORDON: Yes. You must also remember the extension from St. Felicien was negotiated on the basis that the subsidy was applicable on the whole extension. There is not a traffic guarantee on the St. Felicien-Cache Lake portion. We are a little disappointed with the traffic, but it has been by reason of the fact that the market for lead, zinc and copper has been off.

Mr. CHEVRIER: That is on the St. Felicien line?

Mr. GORDON: No, the traffic would come down the other way. The St. Felicien line was only opened a few months ago. It is too early to say in that regard. We never did believe that that line would produce traffic to justify the expenditure, from strictly a railway point of view. That is the reason that the Federal Government provided the subsidy in respect of the capital expenditure.

Mr. CHEVRIER: What about the Terrace-Kitimat line?

Mr. GORDON: It is all right. The Aluminum Company have already moved more than enough traffic to discharge that guarantee.

Mr. CHEVRIER: And Lynn lake-Sherridon?

Mr. GORDON: The traffic is coming out, but the guarantee is not yet discharged. I see here the figure that in these nine branch lines the total railway investment was \$83 million, and I see the figure of the total investment by the industries, which went into operation by reason of the building of lines, is a capital investment of \$850 million. That augurs well for the future in that connection.

Mr. CHEVRIER: Have you any figures to show the revenue from these nine lines, or do you break it down.

Mr. GORDON: No. The figures I have are so shaky I do not want to give them. We know we have not had to call on them for the guarantee. It will take a few years for the lines to mature before we can really form a good judgment.

Mr. HORNER (*Jasper-Edson*): Have you no figures for the revenue per ton mile on these lines?

Mr. GORDON: No.

Mr. BROWNE (*Vancouver-Kingsway*): Might I ask a few questions about the piggyback operation of the railway?

Mr. FISHER: Are we finished with these branch lines?

The CHAIRMAN: Probably we should let Mr. Fisher finish the matter of the branch lines.

Mr. FISHER: I wanted to know whether for 1960 you have projected any engineering surveys or plans which will lead to new lines? My main interest is in two lines, one to lake St. Joseph and the other to the Anaconda property.

Mr. GORDON: At the moment we have a few tentative, but no specific surveys or requests in connection with any new lines.

Mr. FISHER: You have had no indication that within the next few years you will be requested to put a line into either the Anaconda property north of Nakina or the Steep Rock property up by lake St. Joseph.

Mr. GORDON: Not specifically. We have had half a dozen tentative discussions but nothing of a concrete nature. We do believe that over the next four or five years there will be requests for branch lines at various points. However, as I say, even the approach has been so tentative that we have not got anything specific on it.

Mr. FISHER: How long would it take from the time when someone makes a concrete approach until you are able to get cracking.

Mr. GORDON: It would depend entirely on the circumstances. As I say if the approach is sufficiently concrete that they are able to specify the traffic or work out a guarantee we could get on with the preliminary survey in a matter of weeks. Mind you, it depends on the country, as to how long it would take to do the survey. We would make an aerial survey, but when you are building a railway line you have to have somebody on the ground practically walking over all the land foot by foot. If we had a concrete proposal we would gear ourselves to get into operation in very short order.

Mr. FISHER: One final question on the point. Say it was anything substantial, would there have to be an act of parliament?

Mr. GORDON: Yes, if the line was over six miles.

Mr. FRASER: Mr. Gordon, could I ask whether the Chisel lake line will be finished, that is the Hudson Bay from Flin Flon over?

Mr. GORDON: Mr. Dingle tells me it will be finished this fall.

Mr. FRASER: It will be finished this fall?

Mr. GORDON: Yes.

Mr. FRASER: Will the Hudson's Bay Company be ready to produce then?

Mr. GORDON: My note here says—and of course I cannot speak for them, but I am giving you what I hear—that the Hudson's Bay Mining and Smelting Company plans are to bring its mine at Chisel lake into production and commence shipment of its ore to its smelter in Flin Flon towards the end of July 1960, that the development of the mine at Chisel lake is proceeding as scheduled. That was my latest information on it.

Mr. BENIDICKSON: With respect to branch line development, Mr. Gordon, rightly or wrongly I have rather formed the impression that a crown company over a period of years has rather been disinclined to take ordinary commercial initiative in a matter of this kind and when, say, a mineral development might be in sight it sort of goes to seek protection from the government for loss protection for branch line development. What is the record in that respect?

Mr. GORDON: I think our record has been very good. We have stated our policy on quite a number of occasions, and it is quite clear in the minds of those who are interested. Our policy in respect of branch line or other rail extension is that we accept as a general principle all responsibility to provide adequate rail facilities to any point or any operation where there is a logical reason to do so, provided we can see reasonable prospects that over a period of years sufficient additional traffic will develop to justify the outlay of capital and the operating expenses involved in the service. We recognize and accept the condition that usually a period of deficit operation must be faced. We are satisfied if there are reasonable prospects of breaking out of the deficit position. We keep undeveloped areas under review and discussion, and where our interests in traffic potential out of an area are sufficient to meet this test, then, with the approval of our board of directors to the proposal, we provide for it in our budget and defend it as a legitimate project. Our analysis, of course, is a matter of judgment which may or may not be justified, but in other words we accept our responsibility to take risks as part of our business operations.

Mr. BENIDICKSON: That was not my point.

Mr. GORDON: Where our analysis of potential traffic shows it to be dependent solely or largely on the development plans of a particular industry, which is asking for rail service, we require a form of insurance to protect us against the contingency that the industry will fail to carry out the assurance to complete their project; in other words, we make a traffic guarantee which is a simple formula intended to ensure that the industry will live up to some agreed level of traffic. If the representations made by the industry work out in practice, in other words, if their own appraisal of what they intend to do works out, and the traffic figure which they have told us to expect does work out in practice, it costs the industry nothing for our service beyond the normal freight charges. If the industry falls short of the traffic volume, the guarantee becomes operative and the railway is reimbursed on a basis sufficient to cover our fixed costs.

In no cases have the terms of the guarantee proved onerous to the enterprise concerned. The object of the guarantee is to provide a reassurance of the entrepreneur's intention to carry out the project in which both he and the railway provide capital.

There are many examples of a guarantee, some of which you have just mentioned, Mr. Chevrier. There is this final point and it is important, particularly in regard to some discussions that have been going on lately, that where our analysis of the traffic potential reveals that there is no real prospect of

development taking place on a scale which would allow us to break out of a deficit position over a reasonable period of years, we consider the question in the larger interests and determine how far we have economic justification in sponsoring such a railway. This may mean we are prepared to finance part of the cost if other interests, for example the federal or provincial government, are prepared to provide the rest. We get the proposal ready and before it gets into our capital budget there will be a clear understanding of what is involved in the arrangement.

Any subsidy provided by a government in such an arrangement is not for the benefit of the railway, since it covers only that portion of the cost which the railway would not undertake in any event. The subsidy is for the general benefit of the community to be served, or even a larger interest, and may be appraised by the government concerned in such terms as political considerations and/or defence requirements. When that comes into play we tell them that from our analysis we are prepared to put up so much. If they have reasons of a character which justifies their paying part of the expenditure involved, we build it.

To sum up; all that this means is that the Canadian National Railways takes its full share of prudent risks, and we will not accept a proposition where our analysis reveals that the building of a particular line of railway means an inevitable loss and a breaking down of our net earnings. Our judgment is not likely to be always perfect, but nevertheless we do bring an informed and an intelligent appraisal to bear in regard to the projects we refuse, as well as those we accept.

The Canadian National Railways was the originator of this traffic guarantee form of approach to this problem, and we originated it because of past experience where railway lines were pushed, back in the days when political considerations had something to do with these matters—happily gone now. The railways were pushed on that basis, whether it was completely economical for the railway to build the line or not. So we do it on an arm's length basis and consider all the interests, not only of the industry that wants the service, but also the general effect to the community; and on the basis of our appraisal we are prepared to take care of our share of the risk.

Mr. BENEDICKSON: May I follow on my question? I am glad to have that statement from the president of the Canadian National Railways, because we all know that crown corporations of the magnitude of the Canadian National Railways are criticized—

Mr. GORDON: Criticized, period.

Mr. BENEDICKSON: —criticized, and from both ends of the spectrum. It is asserted that they are sometimes too soft in making a number of investments, and on the other hand too tough in relation to—

Mr. CHEVRIER: Too tough.

Mr. BENEDICKSON: Anyway, the president has said that prudent risks are a determination of the board of directors.

Mr. GORDON: That is right.

Mr. BENEDICKSON: He also indicated that he felt that a recommendation from the board of directors to the government, which of course has to assume some share of the financing in these matters, comes from the Canadian National Railways without pressure from the present government or the past government.

Mr. GORDON: What I meant by that is that when my staff has analyzed the project and has come up with a recommendation to me, then if I agree with it I take it to my board of directors. If the board of directors approves, then it

gets into our regular budgetary procedure and would come before this committee as part of the budget you are now discussing; but it would have the approval of our board of directors as a budget item before it would be advanced.

Mr. BENDICKSON: But you said it was free of government pressure either past or present.

Mr. GORDON: Yes, except to this extent: I understand that in individual cases if a government—and I mean by that provincial or federal—were interested in having a line built they would discuss it with us on an arm's length business basis, the same as anybody else. After we have analyzed the thing we would tell them what we thought the traffic potential was in the area; we would tell them what we thought would be justified as a business risk for us; and if the government wished us then to proceed and either provide a subsidy or to assume the capital cost, we would agree to go on and it would then be an act of Parliament, or at least a bill for a proposed act of Parliament.

Mr. BENDICKSON: I thought there was a suggestion there that you would come to this committee, and that is not so. You have to discuss your capital requirements with the government before they can be incorporated in the request we have here.

Mr. GORDON: Yes, because our capital budget is approved by order in council before it reaches this committee. You are quite right, I missed that point.

Mr. CHEVRIER: There are two things I would like to inquire about. One has to do with a statement I think you made recently, Mr. Gordon in connection with the extension of the P.G.E. You recommended or you suggested—and I may be wrong about this—that if the P.G.E. was to be extended to the north-west of the province, that perhaps that extension could use the Canadian National Railways line that is in that vicinity.

Mr. GORDON: In part only. The proposal as we saw it was that a line was to be built from a point north of Prince George, called Summit lake, and it was to be built parallel with our line,—and with a distance of from 20 miles to 65 miles, roughly separating the two lines—to a point called Hazelton; and then the line would branch sharply north up into Alaska. We said, "It is foolish in our opinion to duplicate that line because we are quite willing to give you running rights from Hazelton through to Prince George." That would save whoever is going to build the line—and I am not too clear who is supposed to be building it—but we can save whoever is to build the railway the construction of 205 miles over very difficult territory at a cost which we estimate to be \$30 million or \$35 million in capital. We would gladly have whatever interests are involved run over our line from Prince George and save that 205 miles of difficult construction.

Mr. CHEVRIER: Were you approached, or did you make the offer?

Mr. GORDON: We made the offer ourselves.

Mr. CHEVRIER: To the province?

Mr. GORDON: To both the province and the Wenner-Gren interests.

Mr. CHEVRIER: Might I ask another question concerning Alberta? Has any further development taken place in connection with the Pine Point Railway?

Mr. GORDON: Development in what sense?

Mr. HORNER (*Jasper-Edson*): With regard to the western road, of course.

Mr. GORDON: The royal commission is still sitting on that, is it not?

Mr. HORNER (*Jasper-Edson*): Yes.

Mr. GORDON: That is where it stands.

Mr. CHEVRIER: Have you made a survey?

Mr. GORDON: We have made a preliminary survey of the two routes which were involved, and that survey is in the possession of the government.

Mr. CHEVRIER: I suppose you are not at liberty to tell us now about that?

Mr. GORDON: No, there is a royal commission considering it now, to bring in a recommendation as to which route they want.

Mr. CHEVRIER: There is also an item in the estimates coming up tonight and there will probably be some questions on that.

Mr. BENEDICKSON: The royal commission wants some more money in supplementary estimates from the House of Commons tonight.

Mr. CHEVRIER: May I ask the minister what progress there is on the direction the railway is going to take?

Mr. HEES: There is always progress, Mr. Chairman.

Mr. CHEVRIER: I am afraid I cannot pursue that any further.

Mr. HEES: That was my intention.

Mr. BROWNE (*Vancouver-Kingsway*): Would the revenue show separately that you received from piggyback operation of the company? Can you give a figure for that?

Mr. GORDON: I am very suspicious of these questions that expose our business to our competitors. I would like to know just where I stand on that.

Mr. BROWNE (*Vancouver-Kingsway*): I would like to find out some of the policies of the company in this regard, what they are doing with their own trucks and what they are doing with other people's trucks.

The CHAIRMAN: What is your question, Mr. Browne?

Mr. BROWNE (*Vancouver-Kingsway*): I want to know what revenue the Canadian National Railways receives from their piggyback operation, and if it is possible I should like to have that broken down into what they make from their own trucks and what revenue they receive from other trucks travelling on the railway.

Mr. GORDON: Well, Mr. Chairman, I think I must take the position that we should not be asked to give information about segments of traffic, which could be of advantage and of benefit to our competitors. In our annual report you will find on page 38 that we give the revenue tonnage by commodities, and that is all we have ever shown in respect of the revenue position of the different types of goods carried by the railway.

I believe that information of the type that Mr. Browne is asking for would be injurious to our competitive interests, and that we should not be asked to reveal it.

Mr. BROWNE (*Vancouver-Kingsway*): I want to know what revenue the like that be prejudicial?

Mr. GORDON: One thing is that I have no access to what the trucking industry has in the way of figures of that kind, and there seems to be developing a great desire that the railways should divulge everything. But the truckers tell us nothing. We have no information at all in respect of the trucking costs and I think any information that the trucking industry gets should work both ways, when you are talking competitive business.

Mr. BROWNE (*Vancouver-Kingsway*): But the operations of the trucks are available to their shareholders, and inasmuch as you have suggested that this committee should get information on trucks used by the Canadian National Railways I do not see why that information should not be available to us.

Mr. GORDON: Can you point out to me where I suggested that?

Mr. BROWNE (*Vancouver-Kingsway*): Could you tell me then the policy—I have had some questions asked me concerning the policy of the piggyback operations in the Maritimes. Is it the policy of the railway to take piggyback operations into the Maritimes with common carrier trucks?

Mr. GORDON: It is our policy to provide piggyback service to the Maritimes, but our piggyback service there is confined to rail operated piggyback.

Mr. BROWNE (*Vancouver-Kingsway*): Why would a common carrier not be taken if he wanted to have his truck transported down to the Maritimes and pick up traffic?

Mr. GORDON: Because we do not feel that there is a need or a demand in the Maritime provinces beyond what we have provided; in other words, our rail operated piggyback is satisfying the market requirements and we do not provide piggyback for competitors merely to satisfy the competitors. What we do is satisfy the public interest and we have no knowledge of shippers being dissatisfied with the service we provide. As a matter of fact we have had requests, for instance, for plan 2 between points in central Canada where plan 1 is now in operation. Plan 2, as you know, is the railway piggyback which we provide to shippers in accordance with their requests.

Mr. BROWNE (*Vancouver-Kingsway*): Is it true that a rather large user of the Canadian National piggyback changed to Canadian Pacific because of that policy that he could not have his trucks transported into the Maritimes?

Mr. GORDON: It is true that one of the truckers who wants to move his trailers by piggyback to the Maritime provinces has talked to us about the service which we are not prepared to provide, and on that decision he has stated that he will concentrate his piggyback operations with the Canadian Pacific Railway.

Mr. BROWNE (*Vancouver-Kingsway*): Do you feel that it could be within the jurisdiction of the railway to maintain a monopoly over the maritime area?

Mr. GORDON: First of all, I do not think it is a monopoly and I hold it to be within the jurisdiction of management to exercise its best judgment in the management of the company.

Mr. BROWNE (*Vancouver-Kingsway*): Well, if you take your trucks in there and nobody else's, and take yours in by rail, are the railways not supposed to provide a common carrier service for anybody?

Mr. GORDON: We have not provided a piggyback service for common carriers.

Mr. CREAGHAN: Do you not provide a piggyback service for others? Is it not possible for a trucker in Moncton to put his trucks on your flat cars and have them taken to Halifax?

Mr. GORDON: Not his own; but he will provide ours on the piggyback operation in any case where the actual shipper is interested in it.

Mr. CREAGHAN: I must be mistaken then, because I somehow or other think I remember seeing pictures in the press,—I cannot remember the name of the firm, but a national firm who were in the Maritimes putting its own trailers on your service.

Mr. GORDON: No, I think you must have been mistaken. It must have been our trailers you saw, because we only handle our own trucks in the Maritimes. I beg your pardon, maybe it may have been household furniture. There is a service for that. That is probably what you saw.

Mr. BROWNE (*Vancouver-Kingsway*): I wonder if I can clear up a point that I started to ask before?

Mr. BENIDICKSON: In connection with the trucking operation.

Mr. CHEVRIER: I was going right on this maritime point.

Mr. BROWNE (*Vancouver-Kingsway*): I think it is all related to trucking. I was inquiring what truck firms had been purchased by the railways and Mr. Gordon said he could not give the names because it would be injurious to the railways to do so. What I would like to know. I think in general terms last year that \$15 million had been budgeted for the purchase of truck lines. I would like to follow that through and find out what portion of that money was spent last year and what is the total amount for this year.

Mr. GORDON: I mentioned this morning that there is \$5 million committed or under option, which came out of that \$15 million, and we have in this budget another \$5 million for this year. In other words, we did not use all the \$15 million; we only used \$5 million.

Mr. CHEVRIER: You said no purchases were made?

Mr. GORDON: No, I said commitments were made; no purchases had been completely consummated.

Mr. BROWNE (*Vancouver-Kingsway*): How much is committed at the present time in total? In other words, you said \$5 million, I think?

Mr. GORDON: Five million dollars, yes, sir.

Mr. BROWNE (*Vancouver-Kingsway*): That included everything previous to that. There was no commitment previous to that and you are not now providing another \$5 million this year?

Mr. GORDON: The \$5 million is up to about the end of February this year. In the forecast budget for 1960 we have another \$5 million to enable us to buy further if we think it is justified.

Mr. CREAGHAN: So you might possibly purchase \$10 million worth of competitive business this year, if possible?

Mr. GORDON: No, no. We cannot purchase \$10 million; we can only purchase \$5 million. We have already committed ourselves for \$5 million.

Mr. CREAGHAN: You are asking for this, are you not?

Mr. GORDON: That is right; but the \$5 million as far as I am concerned is spent, because it is committed.

Mr. CREAGHAN: But it has not been spent; so you might disburse \$10 million this year.

Mr. GORDON: In the actual paying out of the cash, yes, that is possible.

Mr. BROWNE (*Vancouver-Kingsway*): You indicated to the committee by charts that the share in the transport business, in road transport, was 11.9 per cent. Do you have any figures to show what percentage of that 11.9 per cent is done by railway owned lines?

Mr. GORDON: No. I do not think so. That would include the Canadian Pacific Railway as well, would it not?

Mr. BROWNE (*Vancouver-Kingsway*): Yes, I think so. The road transport according to the chart which was presented to us has a share of 11.9 per cent of the freight that is moved. I wondered if you knew how much of that had been done by rail, only over the Canadian National or the Canadian Pacific?

Mr. WAHN: The figure is 11.1 per cent, I think. To the best of my understanding, that is all done by road transport.

Mr. BROWNE (*Vancouver-Kingsway*): The railroads move some rail traffic that is shared with road transport. Do they own that share of the movement?

Mr. GORDON: I do not think the Canadian Pacific publish any figures of their operations in this regard.

Mr. WAHN: I think it would be included in the dominion bureau of statistics figures.

Mr. GORDON: The highway truckers do not publish anything.

Mr. BENIDICKSON: I want to follow up some of Mr. Creaghan's questions with respect to the maritimes in relation to the trucks and the Canadian National Railways. Did I get the right impression from previous testimony here today that with a competitive route such as between Montreal and Toronto the Canadian National Railways seek actively to get piggy-back business from anybody, but with a route in the maritimes, where they may not have the same type of rail competition, they would disdain piggy-back truck service from a truck that was not owned by the Canadian National Railways?

Mr. GORDON: The proper way to answer that is to say that the Canadian National Railways through the media of boxcars, box and baggage cars, highway service, trailers on flat cars, trucks on flat cars, etc., is capable of offering in the maritime provinces the best form of coordinated service in Canada.

Mr. BENIDICKSON: In your opinion?

Mr. GORDON: Please let me finish. Our opinion is part of it; but I support that by the evidence which has been shown by shippers' satisfaction; and it is shippers' satisfaction that I am interested in.

We have seen the growth of less-than-carload lot shipments of 500 pounds and up originating in the three large divisions, Halifax, Saint John, and Moncton. They show a very satisfactory increase between 1958 and 1959, and we have no knowledge of shippers being dissatisfied with the Canadian National Railways piggy-back service.

The only request for plan No. 1—that is the plan for commercial operations—the only request for Plan No. 1 of which we have any knowledge is made by highway operators, and we do not regard such requests as reflecting public convenience.

Mr. BENIDICKSON: You think there is a difference then between Toronto and Montreal in that respect?

Mr. GORDON: Yes.

Mr. McPHILLIPS: This morning you made some mention of the construction of a microwave installation in northern British Columbia up to the Alaskan boundary on behalf of the United States government. Do you mean that you constructed this as contractors?

Mr. GORDON: It is a microwave installation we are doing on behalf of the United States government.

Mr. McPHILLIPS: Are you doing it as contractors?

Mr. GORDON: No. We have a contract with the United States government and we have called for tenders in respect to the actual installation. It is now being installed for us by the successful tenderer, the RCA Victor Company of Canada, and when the installation is complete we will become the operators.

Mr. McPHILLIPS: You will be the operators, but not the proprietors?

Mr. GORDON: Oh yes. The RCA is building the installation for us.

Mr. McPHILLIPS: As I understood it, I thought you were doing this on behalf of the United States government, and that you meant you acted as contractors.

Mr. GORDON: Perhaps I was not too very clear. The United States government asked us to provide a microwave service and a communications system which will reach through to Alaska as part of a general communications system. We undertook to provide that service. It is a service which we have undertaken to provide and in order to provide that service we have to build the installation. We decided not to build it with our own forces, so we have

employed the RCA Victor people to make the actual installation. It is similar to building construction. The contractor takes the contract to have the building, built, and once it is built for us we operate it as operators and provide the service to the United States government.

Mr. McPHILLIPS: And they will pay you for that service?

Mr. GORDON: That is right. We made a rental arrangement with the United States government on an amortization basis.

Mr. CHEVRIER: And where does it begin?

Mr. GORDON: The system will run from the United States border to Alaska. Part of it will be handled by Alberta Telephones in collaboration with us; and then north of Grande Prairie it will be our own line.

Mr. BENEDICKSON: In years, what is the term of the agreement with the United States government?

Mr. GORDON: I always find myself in difficulty when I speak of contracts with other people. This system in the first place was a very highly classified type of installation. However it is generally known now. Just let me think for a moment as to whether I am in a position to reveal it.

Mr. BENEDICKSON: I will not press it.

Mr. GORDON: Let me say that it is for a period of years, and on an amortization basis which will pay off the capital over a period of years.

Mr. BENEDICKSON: I would point out that the United States government has made other investments in this country concerning which afterwards we felt it was possible to make an agreement and acquire their ownership.

Mr. GORDON: That is not the case here.

Mr. BROOME: The funds are being raised, and they will be paid off through money raised by the government, or through Canadian National Railways backed bonds, and you will be getting a yearly return which will give you back your money and pay off your expenses over a 15 year period?

Mr. GORDON: That is right, and it will also provide a modest profit. Moreover we will get an advantage by reason of this installation, and we will be getting a pretty good communication system.

Mr. BROOME: Are we operating a telephone system in any way in connection with it?

Mr. GORDON: It can be. The microwave can be used for telephone.

Mr. BROOME: Are you operating telephones in that area?

Mr. GORDON: Yes, north of that area we are operating telephones.

Mr. BROOME: Is there any particular reason why you should be in the telephone business?

Mr. GORDON: Yes, because it is a good, profitable business.

Mr. BENEDICKSON: When you speak of a micro-wave system from the border up as far as the terminal in northern Alberta—you mentioned a route and you said it was microwave.

Mr. GORDON: Yes.

Mr. BENEDICKSON: Would it be relatively less expensive if you were to provide a television microwave on that same line?

Mr. GORDON: Yes, we can do that on the microwave.

Mr. BENEDICKSON: Then your practice would be to rent that to the C.B.C. for service to people on that route?

Mr. GORDON: May I explain it this way: from the vicinity of the United States border north to a point called Grand Prairie, or nearby, the Alberta Government Telephones already have a microwave system. It is not of

sufficient quality, however, to undertake this particular request; so we are acting as agents for the United States government to arrange with the Alberta government telephone to upgrade their system so we would not have to build a duplicate system. In other words, we have arranged with them to use that part of it and avoid duplication. Then from Grand Prairie north we are building the microwave. When I say "we", I mean that we are employing R.C.A. as our contractor to do the work. From that total installation there will then be a complete communication system stretching from the United States border through to Alaska.

Mr. BENDICKSON: But the mere fact that that capital investment has been made under a contract with the United States government, and is to be amortized, might conceivably make it less expensive to add a television service to the users there?

Mr. GORDON: Yes—we get the by-product automatically. I would like to say to Mr. Broome that my facetious comment about the good, profitable business is also qualified. There are certain areas in Canada where we have been entrusted with the operation of the telephone service. A case in point is Newfoundland, where we are the sole supplier, with the exceptions on the Avalon Telephone Company. There are other areas where we supply service—telephone service.

Mr. BROOME: Could you have information for me at tomorrow's meeting on...

Mr. GORDON: Is there going to be a meeting tomorrow morning? If so, I lose a bet of 25 cents.

The CHAIRMAN: I think that, in fairness, Mr. McPhillips should complete his questions; and then I think it is the turn of Mr. Fisher and Mr. Smith.

Mr. McPHILLIPS: I would like to ask one other question. In connection with the graph that we saw on terminals, I notice that in so far as the Pacific coast is concerned, for the future there was a big yellow blob termed "Vancouver". I take it that in fact that means Port Mann?

Mr. GORDON: It might be Port Mann, or what would take the place of Port Mann. We are now entering on a revision of Port Mann facilities. Basically, it is Port Mann.

Mr. McPHILLIPS: I read your magazines called "Keeping Track" with a good deal of interest, and not long ago I saw something there that interested me greatly—and you mentioned it today. That is, that in your yards you are using what I think was termed endless rail.

Mr. GORDON: Endless what?

Mr. McPHILLIPS: Endless rail, or continuous rail. Could you just say something shortly as to that. Is that a new departure?

Mr. GORDON: No, we have been experimenting with that for some years. Perhaps Dingle could deal with the subject.

Mr. DINGLE: We have welded 39-foot standard rail into lengths of 550 feet and 1,100 feet, and applied them on certain sections of the line. We are installing more every year. The same type of rail is being used in some of our new yards to save maintenance costs.

Mr. McPHILLIPS: It can be used on main line services?

Mr. DINGLE: Yes, we have it on main line.

Mr. BROOME: Mr. McPhillips asked a question in regard to the \$4 million for terminals that you had marked on your chart, and I think you said it was for facilities at Port Mann.

What facilities are you contemplating there? It is \$4 million for 1960, I think. It is marked on your chart, where you had your major...

Mr. GORDON: In Vancouver?

Mr. McPHILLIPS: Not 1960—but for the future.

Mr. BROOME: \$4 million, for the future, in regard to terminals.

Mr. GORDON: That is merely a forecast figure. We have nothing in the 1960 budget, but we foresee the day will come when we will have to do something about our Port Mann facilities. It has not even been crystallized to the stage of a project yet, but we are trying to make a long-range forecast of what will probably be required.

Mr. FISHER: I notice that there are some expenditures planned to improve the track on the D.W. and P. down to Duluth. Can you tell me the reasons for this?

Mr. GORDON: Do you have information on this, Mr. Hunt?

Mr. FISHER: I just wanted to check...

Mr. GORDON: This is only, the normal replacement of rail that is used up in service. That is all we have in mind. We have nothing new, apart from restoration of track.

Mr. FISHER: It has no connection with a recent announcement of Premier Iron Ore that it may locate an iron ore plant at Duluth?

Mr. GORDON: No, it has nothing to do with that. If it had anything to do with that, it would be a much bigger program.

Mr. FISHER: You have no information of this particular development to have iron ore going down to Duluth right from the Canadian pitheads?

Mr. GORDON: No.

Mr. BENEDICKSON: What about a smelter at the lakehead—have there been serious approaches to the industrial department about that?

Mr. GORDON: Not to my knowledge.

Mr. FISHER: The next question is this. In so far as your terminal facilities at the lakehead and at Winnipeg are concerned, in so far as they have any facilities for trucking, is that in part your plan to fit in with the lakehead terminal?

Mr. GORDON: You are thinking of the Gibb plan that was put up for the government terminal in that respect. We have nothing specific which would contemplate an expenditure by the railway, and we are taking the position at the moment it should not be at railway expense.

Mr. FISHER: What is your relationship with the C.S.L., since much of the traffic which goes through there will come through C.S.L., and it has its own truck lines it has worked in cooperation with the C.N.R.? Do you know anything about any trend or development there which would see them using, say, piggy-back only on shipboard to move stuff through to Winnipeg?

Mr. GORDON: There is no specific arrangement under consideration at the moment. The whole question is in, you might almost say, a state of flux with regard to what will develop there. But our relations with the C.S.L. are quite close, and we are working out any arrangements to our mutual advantage.

Mr. FISHER: What do you mean by "quite close"?

Mr. GORDON: We will provide them with service. We have interchange with them at Point Edward. With that relationship we provide them with facilities of our shed for interchange of traffic.

Mr. FISHER: You made some reference to decisions made by your board of directors. Do you feel we might gain something from having the board of directors here as well as your officials? I gather from your remarks the major

decisions are made in consultation with the board of directors, and I thought they might be able to bring something of value to this committee meeting. Has that ever been contemplated?

Mr. GORDON: The point is, you must remember the board of directors is not in touch with the day-to-day operations of the railway. The general arrangement is that we have meetings usually about once a month. At that time I present to them the specific items which may call for decisions, but they cannot possibly be in touch with the day-to-day operations. You should keep in mind I am the chairman of the board of directors and can speak for the board in case of need. However, I am perfectly certain that if the board is wanted here, they will come; but I do not think they should really be expected to make a useful contribution to this kind of discussion.

Mr. FISHER: You charge us with the major task of examining the efficiency of the Canadian National Railways. I would assume, since you have given service verbally to the corporate method and are wanting the C.N.R. to be treated as a private enterprise, surely the board of directors would be very valuable to have here?

You do not indicate, by your answer, you feel in a corporate enterprise the board of directors are not as important, or important only with relation to the chairman of the board.

Mr. GORDON: Let us examine your suggestion. In the first place, I did not decide that the Canadian National should be patterned on the model of private enterprise. Parliament decided that. The set-up of the Canadian National was discussed on the basis that the intelligent thing to do was to set up the Railway on the model of private enterprise.

I have in my papers here—by some coincidence—a number of quotations which include one of Sir Robert Borden who, I understand, was a prime minister in this country. I have one also of Hon. Arthur Meighen, who was a prime minister, and of Mr. MacKenzie King. I have not been able to get a quotation of a C.C.F. prime minister!

Mr. BENEDICKSON: He would have to be chairman of the C.N.R. too.

Mr. GORDON: All I intend to indicate by that is that in looking at the history of the formation of the Canadian National Railways you will find throughout the debates in Hansard that every phase of political opinion then expressed endorsed the decision that the Canadian National should be set up on the pattern of a private enterprise corporation, with its own board of directors for the particular reason that the railway should be operated and managed independently.

I think, if you will permit me I have a statement made by Mr. MacKenzie King which is quite pertinent.

An hon. MEMBER: It would not mean as much as what Mr. Diefenbaker might say.

Mr. GORDON: I have not searched the recent record but I do not think that he has had an occasion to say anything about this particular point.

This is from Hansard, June 8, 1923:

I think this is, perhaps, an opportune moment to say a word as to the relations between the government and the Canadian National Railways, and particularly as to the relationship between Sir Henry Thornton, as the head of the railways, and myself in the position which I occupy at the moment. When the government asked Sir Henry Thornton to take control of the railroad we gave him—and I in the name of the government gave him—a distinct pledge that he would be entrusted with the management, that he would have a board of directors with whom he would be associated, and that the board and he as president would be given a free hand, and that there would be no

interference on the part of the government with the action which they were taking. We told him, however, that we would hold him responsible for the manner in which he conducted the affairs of the system, but that while we held him responsible we would give him a free hand and would not interfere with him.

In the other text, that of the Drayton-Acworth commission, it was specifically stated that the C.N.R. was not to be considered as a department of government, and the gravest warnings were given advising against that course of action. It was pointed out what would likely transpire.

I think, if you will permit me, I will quote one more paragraph, because I feel it is worth my research work to be able to demonstrate it.

Mr. BROOME: Your staff prepares you so well for this, I do not know how you stop the Minister of Transport from stealing them.

Mr. SMITH (*Simcoe North*): He gets them through the mail.

Mr. GORDON: This is my own research. This is something I have a great interest in, and I think it is worth while getting it on the record.

Let me read this from the statement of—I cannot find it now. My own index system fails me, and not my staff.

Mr. FISHER: He is making the point the directors are very important people; and we should see them.

Mr. GORDON: Sir Robert Borden, when talking about the railway said:

As to the immediate future, I have already said that we do not intend to operate the Canadian Northern Railway system directly under a department of the government; it is our intention to operate it for the present through the corporate machinery by which it has been operated in the past. There will be a reconstituted board of directors. We shall endeavour to get the best men we can and we shall not interfere with them. We shall leave the administration and operation of that road to be carried on absolutely under that board of directors and we shall use every means available to the government (and if necessary we shall come to parliament for that purpose) in order that anything like political influence, political patronage or political interference—I am using the word political in its narrower sense—shall be absolutely eliminated from the administration of that road.

Coming back to your point in regard to the board of directors, I do not know—and I cannot answer your question specifically—whether or not you would find it of interest to have them appear. I can tell you that you could not expect them, as individuals, to give the kind of answers I am giving you, to your questions, because I am speaking both as president and as chairman of the board.

Mr. BENEDICKSON: Some may have been candidates for political parties.

The CHAIRMAN: We should not have them appear here, and put it on the basis of a corporate management. You would not have, in a business corporation, members of the board speaking for the president. The board of directors, as shareholders, would attend the corporation's annual meeting as shareholders, as we are attending here, but the one who would answer for them would be the president and chairman of the board of directors, even though the shareholders were there. You have never heard of an annual meeting of shareholders having the board of directors answer for the management of the company because they sit in with the president monthly and formulate the policy of the company. It is rather like a caucus of a party and then at the annual meeting, the president presents the combined judgment.

Mr. BENEDICKSON: A caucus of a party is always secret.

The CHAIRMAN: Not always. If you are putting it on the basis that it should be like a corporation, then there is no corporation that would do that and you should not ask them to deviate.

Mr. FISHER: Mr. Gordon has buttressed the point that his board of directors have a very important function. Now, the C.N.R. has been much criticized; its results are much criticized, and here is an organization that is continually going in the hole. I would not like to suggest that Mr. Gordon is responsible in any way for some of these decisions. When he has a board of directors, I would not want him to accept the total responsibility.

The CHAIRMAN: That is his function as president of the railway. The board of directors sit in with him monthly, or whenever they meet, and formulate their policy, but Mr. Gordon has to be their spokesman even if they were all here today.

Mr. FISHER: Do you think that we could not very well ask them?

The CHAIRMAN: Well, we could if you wish. This committee can have anyone come, as we suggested this morning. You put it on the basis of wanting to run it as a corporation but, if that were so, it would not be run in that way.

Mr. FISHER: I have gone through the C.P.R. annual report, and I find in reading that report that Mr. Crump is not the only one who speaks to the shareholders. As a matter of fact, I have seen records where Mr. C. D. Howe has spoken to the shareholders, and a certain number of the directors make comments. This is the sort of thing I thought might be possible with the C.N.R.

Mr. BENEDICKSON: Is Mr. Howe a director of the C.P.R.?

Mr. FISHER: Yes.

Mr. DRYSDALE: Have you lost track of what he is doing now?

Mr. BENEDICKSON: Yes, in this respect even if he was my ex-neighbour.

Mr. GORDON: Mr. Fisher, I do not want to leave the impression that there is any reluctance on my part or that of the board of directors to appear, but I thought that you were asking me a question of practicability. The fact is that anyone who has any experience in management of an organization knows that the board of directors of any organization deals with the recommendations of the president, who is in charge of the management of the organization. That is what our board of directors do; they deal with my recommendations. They may bring matters to my attention, but they do not originate and bring forward any projects in connection with the railway. They expect me to do it, and I do it with the assistance of my officers. The board of directors deal with my recommendations.

Mr. BROOME: Do they ever turn any of them?

Mr. GORDON: Yes, there have been occasions when they have.

Mr. FISHER: Evidently in a private corporate enterprise the board of directors are detached a certain amount from the shareholders, and everything is focused upon the chairman or president. Do you as president have any say as to whom you get as a director?

Mr. GORDON: No, the directors are appointed by order in council under the act.

Mr. DRYSDALE: How much do they get?

Mr. FISHER: In other words, this is a ministerial responsibility.

The CHAIRMAN: But the ministerial group represent the shareholders.

Mr. FISHER: I would like to ask the minister if he is satisfied with the board of directors of the Canadian National Railways?

Mr. HEES: Yes.

Mr. FISHER: I beg your pardon?

Mr. HEES: I said I was satisfied with the directors of the C.N.R.

Mr. BENDICKSON: Are you satisfied that the number of directors is adequate, having regard to the fact that the rival company, the C.P.R.—and I have raised this in the house—has a very large board, with tremendous connections with potential freight right across the country. Is the minister satisfied that the board of seven which we have is adequate in relation to the competitive advantage that I see in the C.P.R. of having a large board? I do not know how many there are, but I would imagine there are about twenty-five—all with connections for producing freight.

An hon. MEMBER: And with shares.

Mr. BENDICKSON: I think some of them have very few shares. I am quite satisfied that our seven directors hold shares in Canada, as Canada and that is their job. However, I do not think that it is a large enough group to keep in touch with potential suppliers of business to the C.N.R. I have raised this matter in the house before.

The CHAIRMAN: Did you raise it before your party went out of power?

Mr. BENDICKSON: Yes, I have done that, and I think I have done it with my former minister, who is sitting beside me, Mr. Chevrier. I still think it is a valid suggestion and I raise it to the minister. Will you consider it?

Mr. HEES: I have had no reason to believe that the present number of directors is not adequate.

The CHAIRMAN: This minister is as hard to convince as yours was.

Mr. BENDICKSON: I think so. I will continue my persuasion because I think in a big country like this that the C.P.R. are putting it all over the C.N.R. by having a large directorate representative of British Columbia, Alberta, Saskatchewan and all across the country, all of whom are boosters for the C.P.R. and all of whom have a personal relationship with suppliers of freight. I have said for some years in private in the government and outside in the house that I think the directorate in the C.N.R. is too small in number, that it puts too much responsibility on management, and is not developing freight in the way that the rival company is.

Mr. HORNER (*Jasper-Edson*): I agree with you.

Mr. BROOME: What do you think of that, or would you care to comment?

Mr. GORDON: I do not know that I should comment on existing legislation. It is there and I am not in a position to change it. However, I would make quite a number of changes if I could! Please do not press me.

Mr. FISHER: I would like to ask the minister whether there is anything in the nature of an honorific in connection with the appointment of the board of directors. Is it a post more of honour than of performance?

Mr. HEES: I think the way most would look at it would be more in the way of an honour than the cash involved. I would think that this would be one of the very top honours that any businessman in Canada could get.

Mr. BENDICKSON: That is why I say the government, in the past and now, is missing the boat. There are many businessmen of great promise in private life who would consider a directorate in the C.N.R. a matter of compliment, honour and responsibility. I am sure they would have the same interest in trying to promote freight and business for the C.N.R. as their opposite numbers.

Mr. FISHER: If there is substance to Mr. Bendickson's suggestion, and some of the members of the committee have indicated, probably in an improper way, that there is, perhaps it would be well for this committee to talk to the present directors to show how they play their particular role.

Mr. HEES: I do not know any of them who are not happy and proud to be directors.

Mr. BENIDICKSON: My concern is that we have a small directorate, and those who are on the directorate, quite unlike the C.P.R., are not seemingly associated with the creation of business for the railroad. Although he is no friend of mine, we formerly had a head of a wheat pool, and he was replaced by a director of a few businesses in another part of western Canada. However, I am not going to get into personalities, but I would ask that the minister give consideration to this.

The CHAIRMAN: I might point out that the president of the C.N.R. is prohibited from sitting on any other board, so you have him stymied to a certain extent in the promotion of his freight and services.

Mr. BENIDICKSON: That is more reason to have some other gentlemen who would consider this an honour.

The CHAIRMAN: Mr. Smith, I believe I have held you back.

Mr. SMITH (*Simcoe North*): I would like to refer back to Mr. Browne's line of questions and get Mr. Gordon piggybacking again for about three questions. I think, Mr. Gordon, you suggested that in the maritimes the reason you did not need to accept piggybacks from common carriers was that you were providing an efficient service, and the shippers were satisfied there. Now, when you acquire your network of trucks in western Canada and will presumably be supplying complete service to shippers in western Canada, will it then be your policy to refuse piggyback cargoes from road carriers in western Canada?

Mr. GORDON: As soon as we have any evidence that the shippers either to or from the maritimes are dissatisfied with the service we are providing we are perfectly willing to extend it. But what I told you before is that as far as we know there is every evidence of shipper satisfaction with our service both inbound and outbound because our traffic has been showing a satisfactory increase.

I do want to call attention here and I cannot resist a quotation from a brief that was read to the royal commission on transportation on this particular point. This comes from the regional chamber of commerce in New Carlisle, the Gaspesian Regional Chamber of Commerce and it said that, the trucking services operated by the Canadian National are satisfactory.

Mr. SMITH (*Simcoe North*): I am sorry, that is not quite my question. I have accepted your premise that you are giving good service; but my question is do you propose applying some yard-stick in western Canada, when you have common trucks all through there, and provide an adequate complementary service there which satisfies your shippers? Will you then refuse road carriers piggyback in western Canada?

Mr. GORDON: If we do not think that the service has the demand effect which would benefit us from the operating on shipper point of view, that is the answer. We are dealing with competition here only.

Mr. SMITH (*Simcoe North*): Now, in relation to the trucks to western Canada, I have heard the statement made that there is plenty of truck shipping coming into western Canada, particularly the prairie provinces, but that the competition among the trucking firms is against their trying to get cargoes back to make a two-way deal. We have heard it said that since the number of shippers from the west is so limited by agreed rates, when you have a trucking network across Canada you will be able to satisfy your competitors by reason of snaffling off all the profitable shipping out of western Canada to Ontario.

Mr. GORDON: Am I supposed to be pleased with that?

Mr. SMITH (*Simcoe North*): I was wondering if you think that is an accurate summary of the position.

Mr. GORDON: I do not know, but I would certainly hope so. If we are going to be competitive we want to be competitive.

Mr. CHOWN: Mr. Gordon, I was going to ask you some questions on terminal closings and lay-offs and pensions and I thought perhaps we might start with lay-offs. I would like you to comment on your policy with respect to lay-offs in three connections, first of all, reemployment, then re-location and then rehabilitation.

Mr. BENEDICKSON: And severance pay.

Mr. GORDON: Well, I do not know quite how to deal with that, but I will try it this way and see if it meets your requirements. As the management has said on many, many occasions the work force requirements on the railway vary upwards and downwards in response to many, many factors—traffic conditions, weather conditions, timing of the program in respect of capital projects, technological change, obsolescence, organizational changes, development of types of competition, labour demands to mention only the more obvious, which gives you some idea of the tremendous complexity in the operational needs of this vast property.

We, as I have shown you today, like any other commercial business, make a financial budget forecast for our operating requirements based on a summary of the regional estimates on traffic, necessary maintenance, replacements of obsolescence, capital expenditure expenditures, and so on, and naturally every effort is made by all concerned to keep within the estimate made. This, as I tried to say today, is simply one of the ordinary control procedures of intelligent management.

I take this occasion to say that I cannot emphasize too strongly that the Canadian National Railways is not a job-creating agency. Management has no mandate and no authority by virtue of its corporate structure as envisaged by the entrusting legislation to take such a role. The Canadian National Railways provide a field for employment only to the extent that it needs employees to produce the services for which there is public demand. In the final analysis the users of railway service set the level of railway employment. It is the function of management to determine what numbers are actually needed in response to the service demands for its various facilities. It is vital to efficient management that the discipline, control and direction of the working force be recognized solely as a managerial responsibility.

With that preamble we naturally have to look at our worker requirements in terms of the various conditions in the railway, be it traffic, or be it changes in the programs, be it technological changes, and so on, and we must adjust ourselves to it.

In the course of doing that, I think we have a very considerate policy in the matter of how we deal with staff who are displaced because of technological change. As far as possible we make available to them other employment. If retraining on the job can take place, we do it. We have done a great deal in that connection. We make every effort to minimize the effect of mechanization and automation on the employee and we have made a number of retraining programs for the benefit of the personnel involved. Is that the sort of thing you have in mind?

Mr. CHOWN: That is what I have in mind. I have a letter from your regional vice president in Winnipeg, dated March 10, 1960, signed by Mr. J. R. McMillan, who says in part:

It is seldom that an individual is told that there is no hope of re-employment for him.

What I am concerned with and probably the reason I made that statement was because in my letter to him I said on February 18, 1960:

I am sure as well that if any of these men have no hope for re-employment they are so advised and can seek permanent jobs elsewhere.

Well, what plays on my mind, as you can now realize is the fact that I just hope that even men with a fair amount of seniority are not encouraged, in the hope that they are going to be re-employed and remain unemployed for protracted periods of time, which is hard on their morale, and yet in the hope of re-employment they are not vigorously seeking employment elsewhere.

Mr. GORDON: You must keep in mind that under the wage agreements which have been signed by all our unions, the seniority principle gives these men the right to bid on jobs which might become available long after they have been laid off. One of our problems in regard to personnel who become redundant as a result of the development of new methods, new equipment, technological change, is that, while we endeavour to place them in other jobs within our organization, our efforts are very often limited by point and craft seniority restrictions contained in the various agreements. This often prevents junior employees—put it this way,—it often happens that junior employees at one location in a particular craft group are entitled to stay on the job, when men of much longer service in another craft at another location would be laid off.

We have had discussions with our labour friends in that connection, and we have not had much success in getting any agreement in respect of transfers or changes in the seniority principle. I am not saying that critically. I am saying that it is a very great difficulty because naturally each craft has a concern about the members of its own union. These wage agreements have been worked out over a long period of years and it is not easy to try to get them adjusted.

Mr. CHOWN: Would you tell me how many agreements you have to negotiate.

Mr. GORDON: Yes. We have 191 collective agreements with 37 individual organizations. I can give you a further breakdown as to what they cover.

Mr. CHOWN: That is sufficient. In the same letter Mr. McMillan said:

You might be interested to know that during the past few months we have been trying to get two machinists to go to Edmonton to work in our motive power department there but without success even though our employment offices in western Canada have contacted all men with machinists' qualifications who had been laid off and registered with the employment offices.

Now, I put this to the Fort Garry lodge 189 at Winnipeg of the international association of machinists and they came back in their letter to me of March 18 with the following reply on that point:

We do not deny that perhaps management failed in an effort to place two machinists in the Edmonton motive power department, but under what conditions? What guarantee was there that the job would last a reasonable length of time?

This takes us back to the periods when there was a lot of relocation going on, in which the men stood for no gain whatever and in many instances a very substantial monetary loss in so far as these employees were concerned. What I was proceeding to ask you is, was there an effort by management, responsible to a degree, whereby the men, if they had agreed to go to Edmonton, would be assured of some security of employment.

Mr. GORDON: You bring up a question which is worth taking a few minutes to discuss. These 191 wage agreements have been negotiated in detail and they are very highly complex agreements. Every item in them has been the result

of hard negotiation on both sides. These various working rules have been worked out in the light of the history of the craft or trade which might be involved. They go back fifty years or more. We find we get along far better when working with the authorized labour representatives. We find they are capable of protecting the interests of the people they represent in a far better way than anybody outside. What happens, with due respect, is that members of some groups talk to members of parliament, mayors, clergymen, and so forth and then these so-called grievances come forward to us, in many instances, without any appreciation of the background of the wage agreement which controls the particular issue, and all sorts of rumour and misunderstanding come into being. That is why we hear so much talk about labor relations on the C.N.R. Nothing of this kind happens on the C.P.R. No one hears of a layoff on the C.P.R. They just proceed with negotiations between management and labour and it is finalized as it should be. Only the authorized labour representative of the particular craft understands the fine points of these agreements.

I do not think I could sit down with a labour agreement and relate all the intricacies of the various types of seniority, craft and point, working rules and other factors. It takes experts to do it. While I have the greatest respect for all members here I do not believe any member of parliament can do it either. My judgment is that these representations which you get should be referred back to the authorized labour representative. Not only is there a well defined procedure but there is also ample provision for appeals which can be taken in respect of misunderstandings, and often it goes through the various levels of authority until it reaches what is known as Board of Adjustment, No 1 on which there are representatives of labour and management. That procedure works very well indeed. I cannot remember a case where any major situation has not been worked out in the process of regular negotiation.

Mr. CHOWN: I was not setting myself up as a bargaining agency for the employee. All I wanted to do was to get the feeling of management in respect of the human element involved and be reassured that the intrinsic dignity of each individual employee is recognized in each field of labour or re-training or re-employment.

Mr. GORDON: I would say this to you, sir. In my opinion—and I give it as my opinion and probably it must be regarded as a biased opinion, but it is nevertheless an honest opinion—I believe that the C.N.R. is one of the most considerate, if not the most considerate, employer in Canada. In all our relations with labour we are up to date in respect of the arrangements we make for our employees in fringe benefits, pensions and working conditions. Our working agreements are generally biased in favour of the employee. That does not rule out the fact that we are going through a period and have gone through a period of what might be called excruciatingly painful transformation.

I ask you to accept that, and I ask our labour friends to accept that when we go through a period of this kind, we need to have patient understanding on both sides.

One of the difficulties I have with railway men generally, I think—and I say this without intending to be offensive,—but I am afraid that railway men generally have the defect of their virtues if I may put it that way. There is no group of employees in their personal capabilities, who are more devoted and more faithful in the discharge of their duties; but flexibility and acceptance of change is not among their collective virtues.

We are having great difficulty in demonstrating that the changes which are coming into being are in the long run to the benefit of railway labour itself.

Unless we get through with this period of transformation which is most painful, and follow through with all the necessary changes, we will not be a competitive industry and we will not be able to have anything like the number of railway workers employed that we have today.

It is for the benefit of the men that these changes be accepted and that they cooperate with management in bringing them about on as reasonable a basis as possible.

We discuss all these situations with labour representatives and we explain matters to them; but I am afraid we have found there are occasions when we do not always get the acceptance of these principles.

That is particularly applicable to the very point under discussion about the Sioux Lookout matter, Mr. Fisher. I have a memorandum on it to show you what happened there. It is a pretty good example of the thing you have in mind.

Just let me give you the details of that particular case, and then Mr. Dingle might add to it, if he feels there is anything more to be said.

The following new CTC installations have been or will be completed during 1960 between Winnipeg and Toronto:

Central region—Caramat, Kowkash and Sudbury subdivisions.

Western region—Quibell and Allanwater subdivisions.

As a result of these installations the following staff reductions are anticipated:

| | Central Region | Western Region |
|----------------------------|----------------|----------------|
| Despatchers | Nil | 4 |
| Operators and agents | 25 | 24 |

As there is at present a shortage of operators it is expected that other jobs will likely be immediately available for the personnel affected.

There will be no reduction in train or engine crews as a result of CTC installations or other advances. However, effective April 24th, engine and train crews in freight service will be operated between Transcona and Sioux Lookout, and Redditt will be eliminated as a turn around point. It is also our intention to operate engine crews in passenger service through between Winnipeg and Sioux Lookout. The train crews in this service already operate between Winnipeg and Armstrong. These changes will affect six passenger, and nine freight engine crews, and seven freight train crews now working out of Sioux Lookout. Transcona will become the home terminal for all of the crews concerned. What we are doing involves no violation of the provisions of our agreements with our employees.

Mr. BENIDICKSON: When do you think the C.T.C. installation will be completed between Sioux Lookout and Winnipeg?

Mr. GORDON: In about April. But let me take this specific example...

Mr. BENIDICKSON: What is the date of the effective agreement?

Mr. GORDON: You mean of the wage agreement?

Mr. BENIDICKSON: Yes.

Mr. GORDON: I would have to look it up. It would probably be the last agreement which was signed. In December, I think.

Mr. BENIDICKSON: Perhaps tomorrow we might find the termination date. That would be most important.

Mr. GORDON: Nevertheless, in order to minimize the effect of these changes on our employees we endeavoured to obtain their concurrence and come to some understanding as to the manner in which crews would be home stationed. Our general manager in Winnipeg offered to station an equal number of crews

at both Transcona and Sioux Lookout, provided the application of punitive rules covering excessive time away from home terminals would be waived. Apparently the union representatives would not agree to any changes in present practice. As far as the affected Sioux Lookout employees are concerned, they could continue maintaining their homes at Sioux Lookout, but it would be expensive inasmuch as they would also have to provide accommodation for themselves at Transcona. Any employees who are required to move as a result of these changes in the exercise of their seniority are granted free rail transportation for themselves and their household effects.

Since it was not possible to reach an understanding with the employees' representatives, notice is being given them that effective April 24th, Redditt will be eliminated from the list of terminals on the Manitoba district, and territory now comprising the Minaki and Quibell subdivisions will be known as Redditt subdivision, and Transcona will be the home terminal for train and engine crews working in pool freight and unassigned service on the Redditt subdivision. They are also being advised that, when completed, Symington yard will replace Transcona as the designated home terminal.

With the elimination of Redditt as an intermediate terminal we will dispense with 15 mechanical employees at that point, including bunkhouse attendants, inspectors, and so on. The remaining mechanical staff will consist of a working foreman and two men to service and fuel, for the most part passenger trains.

You see that what happened there is as a direct result of a technological change. In the days of the steam locomotive it was necessary for us to stop at Redditt to service that locomotive, and the crew was laid over as a turn-around point. Now, with the advent of the diesel and improvement of track, et cetera, we do not need to stop at Redditt at all; we run through.

We said to the men affected, "All right; you can decide on your home station at either point, Transcona or Sioux Lookout"; but under the technical application of the working agreement they would have been entitled to punitive payment when away from home.

Mr. BENIDICKSON: Will you explain that in due course?

Mr. GORDON: Will you take over from there, Mr. Dingle.

Mr. DINGLE: All that is involved in that, Mr. Benidickson, is that the man at a terminal, if he is held 16 hours without a return trip is under punitive pay.

Mr. BENIDICKSON: That was something that was fought for and originated in railway work about 1909.

Mr. DINGLE: Probably away back, yes.

Mr. BENIDICKSON: And the elimination of it would be going back to pre-1909 negotiation arrangements.

Mr. DINGLE: I could not say that. It might be bringing it up to date.

Mr. GORDON: We had the same thing between Mimico and Brockville and we gave up Belleville as an intermediate point. It is the same story. We have to choose which is the home station.

Mr. BENIDICKSON: Would the president permit me to ask him to just differentiate and indicate to the committee the previous set-up between, say, operating from Winnipeg to Sioux Lookout and operating from Mimico to Brockville and under new proposals of management.

I think the president will agree that the in-between terminal had a completely different function. Brockville was a home terminal; Redditt was a turn-about terminal.

Mr. GORDON: Yes.

Mr. BENIDICKSON: And in so far as house investment is concerned, I would think the president would recognize that there is a very great difference.

Mr. GORDON: You said Brockville was a home terminal: I said Belleville.

Mr. BENEDICKSON: Belleville. In between Belleville and Redditt we are not fulfilling a similar function. In addition to that, one was subject to an eastern agreement between management and labour and the other—as I said this morning—was subject to a western agreement between management and labour.

Mr. GORDON: That is quite right; but the point I am making is that basically the reasons for change all arise out of the same thing: it is the advent of dieselization—on which, as I have said today, we have spent close to \$500 million. If we do not take advantage of the savings that accrue out of that form of change, then the whole capital investment there was “madness”, and that then would be what Mr. Fisher would call a “big boob” of the railway.

Mr. BENEDICKSON: I am very familiar with that because I happened to be responsible over several years for piloting through the House of Commons the many millions of dollars, on behalf of the C.N.R., in capital investment. But if as a result certain efficiencies are to be created, in due course, while this committee is sitting, I think we want to try and develop a relationship, in fairness, as to who is going to bear the brunt of disadvantage. If advantages go on one side, and disadvantages are entirely on the other, I think that perhaps the committee, representing the shareholders,—the taxpayers—would not be completely out of order, although I recognize the zeal of management to create the best possible financial result.

Mr. GORDON: I would question your word “disadvantages” going all on the one side. I do not agree with that at all. What I am saying is—and it is what I said earlier—unless we take these steps there will be no work at all for a lot of these men, and by reason of the steps we have taken there will be a preservation of many more railway jobs than would otherwise be the case. Now in working this thing out, remember we have been at this now for nearly ten years and, even if I do say so myself, I think we have done a remarkable job in connection with the various serious displacements of labour that have taken place over that period.

I do reiterate what I said earlier, that the excitement of concern that arises here comes out of the fact that there is an opportunity to go over the heads of the appointed labour representatives.

The Canadian Pacific Railway is doing exactly the same. It had exactly the same problems, and there is no protest about what they have done.

Mr. BENEDICKSON: I am told under the current C.P.R. agreements between management and labour, effective, say, in the same territory which I represent—because I represent two C.P.R. terminals, Kenora and Ignace—that it would be completely out of the question for the C.P.R. to eliminate, by sending a letter, a traditional designation of a terminal as a home terminal, such as is involved in the letter from your general superintendent for the Manitoba district dated March 15, which says that effective April 24, the crews in Sioux Lookout are required simply to take management directive in this respect.

I do not want to go into detail on it. Mr. Drysdale thought it was simple, but I do not regard it as simple. In the practical result it means that those crews have not only to take a trip from No. 1 terminal to No. 2 terminal, but they have to go from No. 1 terminal to No. 3 terminal and, in addition, it is so impracticable for their historic living that they have to sell their residences at No. 2 and move residence, at sacrifice, and to go for example Transcona, being No. 3.

The point I am also concerned about is the interest at terminal No. 1 say Sioux Lookout is basically a C.N.R. point—I mean, that was the original economy of the town—and it is sacrificed for a transfer, a practical or necessary transfer of those crews to Winnipeg, who will not particularly appreciate the transfer economically.

May I say, Mr. President, I know we are getting on to the close of the committee, but what I would like evidence on tomorrow is in regard to something to which you yourself have drawn our attention.

Like Mr. Chown said and like you yourself said, we do not propose to be negotiators of agreements between the management, even of a crown company, and its employees.

But on the other hand, your executive vice-president, Mr. McMillan in a letter to me dated March 18, 1960, wrote along the lines to which you have drawn some attention.

In part, he says:

Nevertheless, I am advised that we endeavoured to obtain their concurrence—

—that is, the concurrence of the brotherhood representing the employees—
—and come to some understanding as to the manner in which crews—
—would be, as traditionally, part stationed in Sioux Lookout and part stationed in Transcona.

Mr. GORDON: That is correct.

Mr. BENEDICKSON: Rather than to have management send out a letter in an arbitrary way saying, "We take advantage of our right and eliminate the home terminal called Sioux Lookout, and until things go our way you have just to work out of Transcona."

That is the thing I would like to develop tomorrow. The chairman's telegram to Sioux Lookout indicated that he felt Sioux Lookout people could not speak for themselves, but I think, in the last sentence of his telegram, he indicated that perhaps a member of a committee, such as myself, could develop this kind of an inquiry; and that is what I am trying to do.

I want all members of the committee to understand—and we are colleagues—that I am sympathetic to the fact that no member should unduly develop the problems that relate solely to his constituency. But we have on our chart seen that green line which indicated that the first completed section of the C.T.C. was in this very territory between Sioux Lookout and Winnipeg. In fact, we got word it is not quite completed but it will be completed some time during this month. Then we had the red lines which indicated this would follow into others parts of western Canada.

I said this morning that was why my colleagues in the House of Commons who did not belong to the same political persuasion as I do, and do not belong to this committee, indicated concern about this—the member for Melville and the member for Rosetown-Biggan, who saw the handwriting on the wall with respect to this. And the advantage of our using Sioux Lookout, as an example only for discussion simply makes it possible for me to know the numbers involved and the likely result. It helps me to ask questions. But this is a pilot proposition. I am sure that many other members of parliament want to see how this develops.

I am not trying to speak especially for the people of Sioux Lookout or for the riding of Kenora-Rainy River; I simply want to see, as a result of the capital investment that has been made in dieselization, C.T.C. and otherwise, the public effect it is going to have on our big crown company.

I concede that the people from Sioux Lookout should not be especially heard any more than any other town, but I said that a representative of the brotherhoods from the western region and eastern region should. In referring to Sioux Lookout, I hope my colleagues will understand that it was the full green light on the map we saw in that long territory from a perpendicular green line a little east of the lakehead all the way to the west coast. I think we should be fully informed as to the effect on our individual locale.

Mr. GORDON: I would be glad to consider this overnight; however, I think it is a good thing that this committee should face the facts of life, and I will be glad to tell them the facts of life.

Mr. BENIDICKSON: You always do.

Mr. GORDON: I am not going to pretend for one moment—

Mr. BENIDICKSON: You always do, and always help us. I only want to say that my concern is—as little as I know about these cases, and it is not simply as Mr. Drysdale suggested this morning is—

An Hon. MEMBER: That little green line.

Mr. BENIDICKSON: There are two things being done that disturb me, as far as I could see from that map on the screen. It is the fact that a crew from Sioux Lookout could perhaps give up their traditional caboose and get off their train at Redditt, and the train would proceed so that your speed would compete with the competitors you have, and vice versa. The same thing could be done from Transcona. I would like to know what these punitive or objectionable things are which you say are costly. However, I realize that you are on one side of the agreement.

Mr. GORDON: We are not violating the agreement; let us be clear on that.

Mr. BENIDICKSON: I mean this business of a man getting sixteen hours off after a normal run, at the moment, and you do not have to pay him anything until after that sixteen hours. My point is: are you taking an adequate look as to the application of that for his traditional trip from Sioux Lookout to Redditt, from Transcona eastward to Redditt. He gives up what he has hitherto had which was, for the trainmen anyway, life on a caboose. You do not now have to switch that caboose. They suggest it will go through. Through that amount of territory I think the crew has to eat somewhere. I think they have to eat during an eight or nine-hour period. They have to eat something other than a sandwich.

Therefore, if you are going to ask them to go through two divisions, are they not going to stop the train to do the normal eating—and for the engineer to take his foot off the mechanical equipment. Would it not be better to have a bunkhouse, which you have not got now, for trainmen say, at Redditt? Your train would go right through Redditt, east and west, not losing five or ten minutes in the process. You would maintain the good will of your men and the traditional experience of going from one division to another.

Mr. GORDON: Well, I have a note of your question. It boils down to the question of the practical operation of the railroad—and I am sure there are a number of factors involved in your outline that need explanation. However, I will consult with my operating officials and reply to you in the morning.

Mr. BENIDICKSON: Have you heard from Premier Frost concerning the fact that the province of Ontario has guaranteed debentures in the town of Sioux Lookout, and has built roads.

Mr. GORDON: No, I have not seen anything from Premier Frost.

The CHAIRMAN: Mr. Carter.

Mr. CARTER: Mr. Chairman, I am going to raise a different subject.

Mr. CHOWN: I move we adjourn.

Mr. BROOME: I would like to ask Mr. Gordon if he could get details on the contractors price on the microwave project and the turn-key contract; that is, the bids of R.C.A. Victor and the rest of them, and the conditions under which your turn-key contract will work.

The CHAIRMAN: You mean for tomorrow?

Mr. BROOME: Yes.

Mr. FISHER: I have two questions, the answers to which I would like to ask Mr. Gordon to prepare for tomorrow. One is an explanation of article 4D

of the B. of L.F. and E. wage agreement, which is a specific and more general one. I would like a projection for the area to the east down to Hornepayne.

Mr. GORDON: I will do my best, but we are developing into a labour negotiating committee.

The CHAIRMAN: Is your question directed to asking the president to get the labour negotiation agreement?

Mr. FISHER: No, an explanation of article 4D, because this is the one that is in controversy in so far as the Sioux Lookout situation is concerned.

Mr. BENIDICKSON: But it is different in every agreement.

Mr. GORDON: Is it the B.L.F. and E.?

Mr. FISHER: Yes.

Mr. BENIDICKSON: There is one other thing that I think the management might do, and that is to relate the savings that they contemplate in my area with the over-all capital loss that some of us, from a community standpoint, envisage in the loss of homes sold at sacrifice prices, and so on—if that could be analyzed in relation to 10 per cent of capital investment, and the savings to the railroad by eliminating Redditt, and this kind of thing.

The CHAIRMAN: I do not know about that, Mr. Benidickson. It is not for me to decide for the committee, but I feel it is my duty to comment on what is relevant to the whole issue. I think it would be a very big order to take in any community.

Mr. BENIDICKSON: Well, would they indicate what they think are their actual savings, and I might bring some evidence as to the social losses.

The CHAIRMAN: Well, I could bring in evidence where a road was cut off. I think it would be irrelevant.

Are we about ready to adjourn?

Mr. CREAGHAN: I have one question which I would like the management to consider answering. I believe all members of parliament and railway workers of Canada received the article put out by the negotiating committee in the last week or so. I wonder if management would care to comment on this article

Mr. GORDON: I would remind you that that case is now being referred to a board of conciliation and that the Minister of Labour is at the point of appointing a chairman. Labour and management will be presenting their case before the Board. I think it would be inappropriate for me to answer any question of that kind.

Mr. CREAGHAN: I just wanted your comments on the facts, stating only whether they are right or wrong in a general way.

Mr. GORDON: There is a good deal of opinion in it, is there not?

Mr. CREAGHAN: Yes.

Mr. CHOWN: In moving the adjournment of this committee, Mr. Chairman, I do not think it would be correct because that is under consideration by another board and, in line with what you said earlier, we are getting to be bargaining agents on one side or the other, depending where our sympathies lie. I think it would be quite inappropriate to discuss the contents of that article, which I read. I think it might do harm to these labour negotiations if we put anything on the record here.

I move the adjournment.

Mr. DRYSDALE: I second the motion.

The CHAIRMAN: The adjournment of the committee has been moved by Mr. Chown and seconded by Mr. Drysdale.

—The committee adjourned.

Third HOUSE OF COMMONS
Second Session—Twenty-fourth Parliament
MINUTES OF PROCEEDINGS
1960

SESSIONAL COMMITTEE

ON

**RAILWAYS, AIR LINES
AND SHIPPING**

Owned and Controlled by the Government

Chairman: HONOURABLE W. EARL ROWE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

WEDNESDAY, MARCH 30, 1960

Canadian National Railways Annual Report (1959);
C.N.R. Capital and Operating Budget (1960);
Canadian National (*West Indies*) Steamships Ltd. Annual Report (1959);
Canadian National Railways Securities Trust Annual Report (1959);
Auditors' Reports to Parliament of J. A. de Lalanne concerning
C.N.R. and C.N. (*West Indies*) Steamships Ltd.;
Main Estimates (1960-61) Items 420, 421 and 429.

WITNESSES:

Mr. Donald Gordon, C.M.G., Mr. S. F. Dingle and Mr. J. L. Toole of the
Canadian National Railways.

SESSIONAL COMMITTEE

ON

RAILWAYS, AIR LINES AND SHIPPING

owned and controlled by the Government

Chairman: Hon. W. EARL ROWE

Vice-Chairman: C. E. CAMPEAU

and Messrs.

- | | | |
|---|--------------------------------|-------------------------------|
| Badanai | Creaghan | Martini |
| ¹ Benidickson | Drysdale | McPhillips |
| Brassard (<i>Lapointe</i>) | Fisher | McWilliam |
| Broome | Fraser | Mitchell |
| ² Browne (<i>Vancouver-Kingsway</i>) | Grills | Monteith (<i>Verdun</i>) |
| Carter | Horner (<i>Jasper-Edson</i>) | Pascoe |
| Chevrier | ³ Howe | Robinson |
| Chown | Kennedy | Smith (<i>Simcoe North</i>) |

Antoine Chassé,
Clerk of the Committee.

¹ Replaced Mr. Granger on 28th March, 1960.

² Replaced Mr. Bourbonnais on 28th March, 1960.

³ Replaced Mr. Smallwood on 29th March, 1960.

MINUTES OF PROCEEDINGS

The Senate, Room 356-S

WEDNESDAY, March 30, 1960

(5)

MORNING SITTING

The Sessional Committee on Railways, Air Lines and Shipping, owned and controlled by the Government met at 9:00 a.m. The Chairman, the Honourable W. Earl Rowe, presided.

Members present: Messrs. Badanai, Benidickson, Broome, Browne (*Vancouver-Kingsway*), Carter, Chevrier, Chown, Drysdale, Fisher, Fraser, Grills, Howe, Horner (*Jasper-Edson*), Martini, McPhillips, McWilliam, Mitchell, Monteith (*Verdun*), Pascoe, Robinson, Rowe, Smith (*Simcoe North*).

In attendance: The Honourable George Hees, Minister of Transport. *From the Canadian National Railways:* Mr. Donald Gordon, Chairman, Board of Directors and President; Mr. S. F. Dingle, Vice-President (Operations); Mr. J. L. Toole, Vice-President (Accounting and Finance); Mr. R. T. Vaughan, Assistant to President; Mr. J. D. Wahn, General Economist; Mr. K. E. Hunt, Chief of Budget and Engineering Economics; Mr. J. A. de Lalanne, C. A., Auditor. *From the Brotherhood of Locomotive Engineers:* Messrs. O. J. Travers, John Marshall, W. J. Wright, V. R. Speare, D. H. Germain.

The Committee resumed from Tuesday the adjourned consideration of the Annual Report of the Canadian National Railways for the year ending December 31st, 1959.

Mr. Gordon and Mr. Dingle were questioned at length.

At 11:30 o'clock a.m. the Committee took recess.

AFTERNOON SITTING

(6)

The Committee resumed at 3:30 o'clock p.m. The Chairman, the Honourable W. Earl Rowe, presided.

Members present: Messrs. Benidickson, Broome, Browne (*Vancouver-Kingsway*), Carter, Chown, Drysdale, Fisher, Fraser, Grills, Howe, Kennedy, Martini, McPhillips, Mitchell, Monteith (*Verdun*), Pascoe, Robinson, Rowe, Smith (*Simcoe North*).

In attendance: With the exception of the delegates from the Brotherhood of Locomotive Engineers, the same officials as are listed in attendance at the morning sitting.

The Committee resumed consideration of the Annual Report of the Canadian National Railways.

Messrs. Gordon, Dingle and Toole were recalled and questioned.

Certain questions were asked of the witnesses and the answers thereto are to be filed with the Clerk of the Committee and made to appear in the printed report of the proceedings. (See Appendices "A" and "B").

During the consideration of the Annual Report of the Canadian National Railways Mr. Browne (*Vancouver-Kingsway*) moved, seconded by Mr. Chown,

"That the Canadian National Railway be not permitted to purchase nor make any commitment to purchase any further truck lines or interests in trucking concerns until Parliament has been informed of the names of all trucking interests and firms which have already been purchased or are under option to the Canadian National Railroad".

The Chairman expressed doubt as to the validity of the said motion and its timing. However, on motion of Mr. Fisher, it was agreed that the motion be tabled.

(*Later*)—Mr. Donald Gordon informed the Committee that he was prepared to give the names of the firms referred to in the proposed motion of Mr. Chown.

After some discussion, the Chairman proposed, and it was agreed, that the names be supplied to Mr. Browne privately. Whereupon the latter was allowed to withdraw his motion.

On motion of Mr. Chown, seconded by Mr. Fraser,

Resolved,—That the Annual Report of the Canadian National Railways for the year ending 31st December, 1959 and the Capital and Operating Budget of the Canadian National Railways for 1960 be approved.

On motion of Mr. Browne, seconded by Mr. Drysdale,

Resolved,—That the Annual Report of the Canadian National Railways (West Indies) Steamships Limited for the year ending December 31st, 1959 be approved.

On motion of Mr. Browne, seconded by Mr. Fraser, the Annual Report of the Canadian National Railways Securities for the year 1959 be approved.

On motion of Mr. McPhillips, seconded by Mr. Smith (*Simcoe North*), the Auditor's Reports to Parliament on the Canadian National Railways and Canadian National Railways (West Indies) Steamships Limited be approved.

On motion of Mr. Fraser, seconded by Mr. Kennedy,

Resolved,—That items 420, 421 and 429 of the Main Estimates 1960-61 be approved.

The Chairman expressed the Committee's thanks to Mr. Gordon and the other Canadian National Railways officials for their attendance and helpful contribution.

At 6:10 o'clock p.m. the Committee adjourned to meet again at 9:00 o'clock a.m. Thursday, March 31st, 1960.

Antoine Chassé,

Clerk of the Committee.

EVIDENCE

WEDNESDAY, March 30, 1960
9:00 a.m.

The CHAIRMAN: All right, gentlemen, let us begin our meeting.

Mr. CHEVRIER: Mr. Chairman, may I ask two or three questions which escaped me the other day, under the title of signals and central traffic control. Could you tell me, Mr. Gordon, how many subdivisions have already been established with central traffic control, and how many are to be done in 1960? I know this is in the graph to some extent, but perhaps not all. How many remain to be done?

Mr. DONALD GORDON, C.M.G., LL.D. (*President, Canadian National Railways*): I think we have that here.

Mr. CHEVRIER: While it is being looked up, perhaps you could answer this question yourself: could you tell us what the additional productivity of the line is where the central traffic control has been established?

Mr. GORDON: Well, that raises the general question which Mr. Benidickson was referring to, and it is part of that complex. It would, I think, belong to that general statement that I have been brooding about overnight, and if you do not mind, I would like to make a general statement which would cover Mr. Benidickson's point. If it does not cover your question, perhaps you would not mind raising it again.

I have been brooding about this overnight, concerning the way in which we left this question. There has not been enough time for me to prepare anything in the way of a considered statement, but I think this question is a very serious one, and one to which the committee should give some very earnest thought.

I say that because it touches on a fundamental question in respect of the rights of management as well as the rights of labour. This is one impact of technological change which has been going on in the railway industry and in the Canadian National Railways for many years. And while the dieselization impact and the central traffic control impact are probably outstanding examples of that, nevertheless there are many other aspects to it.

I say quite definitely that the impact of these changes must be worked out between management and labour, and moreover they must be worked out on a local basis in particular fields, or particular areas rather, as these changes are being put gradually into operation.

This is not something which we are imposing on the whole of the Canadian National Railways system overnight. The working out of these technological changes and the necessary things which flow from them has been a gradual process. The point which Mr. Benidickson brought to our attention is merely one phase of it.

We should first of all remember that one of the conditions of employment, well recognized in these trades, between management and labour, is transfer and change. That is part of the fundamental conditions of employment; and the circumstances under which change and transfers take place have been a matter of negotiated agreement in very carefully spelled out provisions in those wage agreements.

As I told you yesterday, we have 191 individual agreements with 37 organizations. Each one of them has some difference in application in respect to particular occupations or trades, and they are highly complex. They have to do with such things as seniority rights, transfers, and things of that kind.

Those of you who are familiar with railway terms will know what I mean by the process of "bumping". The seniority provisions speak in such a way that the man with seniority rights may "bump" other men, as layoffs take place, or as working conditions are adjusted.

These things can only be properly handled through a regular procedure whereby the appointed representatives of the labour unions, deal with these matters with management; because these labour representatives are highly qualified men who are thoroughly skilled in respect to what the agreements mean, and are qualified to protect the men's interests in that respect.

We, of course, sit down with them in working out particular applications. This is going on all over Canada. It would be quite impractical for me to undertake to centralize control of all negotiations of that kind.

They are in the day to day working of the railway, and they are going on all the time. There is hardly a week goes by—perhaps even hardly a day goes by, but certainly hardly a week goes by—when some of our supervisory officials are not engaged in discussions with labour representatives in respect of various aspects of labour agreements.

In general, we have found that any deviation from these agreements is not regarded with favour by labour representatives. They have demonstrated that they want to have rigid application of the rules; and when we have suggested ways and means, as we have done in the course of the conditions that have emerged from what I call technological changes, they have preferred to have a minute application of the rules which have been spelled out, covering transfers of men or seniority provisions, and things of that kind.

Of course, they are perfectly entitled to do that. That is their right, and they think it is to their advantage to do that. We say, "all right, that is what the agreement says, and if that is what you want, then very well. But remember that that sort of attitude has to work both ways."

That is the situation we have been finding in respect of these discussions.

Now I hasten to add that we quite recognize in our discussions with labour that it is very difficult to work out one particular concession, because these agreements are so interlocked as between trades that any one concession has an impact on other persons or groups, which produces a sort of chain reaction which we know makes it difficult, naturally, for our labour friends to agree to understandings dealing with particular situations.

But it must be remembered that under the contract obligation of these agreements, the procedure for formal notice is spelled out, and we are required to take action in accordance with the agreement by means of formal notice on such and such a date.

Therefore the suggestion that has been made that these men did not get sufficient notice, and that we were abrupt and so forth, is not so. It is a direct working out of the terms of the agreement, and in point of fact, we may have been in discussion with them for many months, or even years, concerning a matter; but the fact is that none of those discussions can be considered as leading anywhere until we have actually taken formal action under the agreement.

I would like to give you an example again in connection with the Redditt application as an illustration of what I have in mind. Remember that it is the formality of the agreement that we are discussing. So I say that these things cannot be dealt with by this committee.

To bring details of the various situations here, I would say, was impractical. You must leave it as a matter of relationship between management and labour.

Nothing can alter the facts. The facts are there, and we are dealing with facts. The fact of dieselization is there; the fact of our putting in centralized traffic control is there; and it has an effect on the conditions of labour.

I am afraid I may not be getting this thing in very good sequence. I was only able to scribble down these notes as I tried to get a hasty breakfast. But dealing again with one of the points that Mr. Benidickson brought up, I say again that it is not possible for us to pinpoint savings in terms of particular areas.

Centralized traffic control is an example; the impact of centralized traffic control is a complex of many factors. It must improve operations; it must improve safety; and must increase the capacity of the line and it must spell out the technique of train operations whereby the old-style of train orders is abandoned, and the railway is worked by means of signal indication.

I cannot take that out of context or out of the whole application of the modernization and rehabilitation of railway, nor can I pinpoint particular savings in centralized traffic control. It is, as you will realize in a moment, tied in with the effectiveness of the dieselization operation; because we cannot get the full benefit of our diesel expenditures until we add the collateral things which we mentioned when going over the charts yesterday, such as siding extension, rearrangement of yards, improved signals and so on. It is all a complex.

Mr. CHEVRIER: Could you say whether or not these expenditures are self-sustaining?

Mr. GORDON: I can say from the figures I have jotted down hastily here, that we have spent 6.5 million up to 1959, and that our 1960 budget requires about \$6 million again, or \$5.9 million precisely. That is what we estimate.

Now, to signalize the divisions that we have stipulated under our program will take a total of \$40 million, and we intend to spend that at about the rate of \$6 million a year.

That \$6 million a year is discovered by looking at what we are able to do in the matter of skilled technicians to put in this type of signalling and the availability of materials, and so on, and I think we can proceed at the rate of about \$6 million a year without straining too hard.

In looking at that across Canada the estimated return in the form of improvements, and so on, varies considerably by subdivision. It depends on the nature of the traffic, the kind of railway line we have there, the area, the curvature, the gradings and so on—things which affect the actual operations of trains and the benefits that we get with improved signalling. But we know that on the average we get a return ranging from say, 3 to 5 per cent and up to 11 per cent, depending, as I say, upon these factors. However, I cannot pick it out of the context of the whole, because every improvement has a bearing on another improvement; in other words, if we had a situation where we had signalling in on all parts of the line except one area, then you can obviously see that the missing gap would affect all the other areas because we would not get the maximum benefit. As I say, the range of improvement in regard to a particular expenditure I think should yield us a return ranging between 5 per cent and 11 per cent on our money.

Mr. CHEVRIER: Then, would you say that it justifies the cost of installation?

Mr. GORDON: Very much so, because, as I say, that particular return is only an effort to deal with it from a signalling point of view. But it has a very important impact on the benefits we will get out of dieselization itself.

As a rough example of the savings on dieselization, I figure that had we not put in dieselization and if we were still working with steam locomotives I do not know where we would be; I do not think we would have a railway at all. I can certainly show direct savings of about \$100 million a year from the effect of dieselization.

I want to touch on another phase and it is this, that Mr. Benidickson quite properly is concerned about the impact on communities, what he has referred to as the social consequences. I suggest to you that that is a completely separate problem. The impact of the action which we may take and which does affect in part certain communities is no different from the impact of any change by any other industry, and it becomes a matter of political philosophy. When someone wants to advocate recognition of that kind of thing, then I suggest it should not be confined only to the impact of Canadian National Railways operations.

The tragedy at Springhill is a case in point. There is a case where a community was practically destroyed by a tragedy. What are you going to do? This, if I may so describe it, is in the broad sense, a political matter, and if the Canadian National Railways had been responsible for that tragedy in Springhill, then on the basis we are now discussing, the suggestion would be that we are wholly responsible for its rectification. I am sure you will appreciate the fact that this cannot be the case. I do not doubt this is a much broader question than merely the impact of Canadian National Railways' actions on any community which incidentally might be affected by the railway industry, and the change in types of operation.

Mr. CHEVRIER: While you are on that would you be good enough to tell us in that context what was done at Stratford, because there I understand the Canadian National Railways moved in and did, I think, something very commendable.

Mr. GORDON: That is quite true. There was a situation at Stratford which we recognized as being unique. We had a big shop there and it was one of our main shops in the system. We naturally have a concern about the impact of this sort of thing on a community. So we proceeded to discuss with the city fathers and other interests, and tell them what they could expect with regard to the discontinuance of the Stratford shops. Then, we had in Stratford the shops themselves, which were going to be completely closed. We had a large area of buildings and machinery which we would not need. That gave us an opportunity, then, by cooperating with the city authorities, to engage in a widespread advertising program to try to persuade other industries to come into Stratford, and we were able to offer to industries the use of our shops and the availability of employees. We had the plant and personnel, and we did a great selling job. In the course of doing that selling job—I have not got the material before me—

Mr. CHEVRIER: Industries in the United States as well as Canada?

Mr. GORDON: Yes, we circulated a regular program there. Perhaps I have some notes on it. There was a very good article in *Maclean's Magazine* in which they covered this whole situation. I would not like to quote it because it is written in the journalistic style that I rather dislike, and has not the sort of modesty we have come to recognize in the Canadian National Railways. In other words, it pays very high tribute to the Canadian National Railways for what we did.

Mr. CHEVRIER: Can you tell us what success has been gained in bringing new industries in?

Mr. GORDON: Yes, we were able to do rather a spectacular job, and that is why this has brought attention. As I say, a campaign was inaugurated to sell the shop to interested, people, and very vigorous efforts were made to industry.

Those efforts included the distribution of a brochure which we prepared in co-operation with the city for the information of prospective buyers. This was done by co-operation between our industrial department and the city fathers.

I would like to remind you that we have in our industrial department something that serves every community where Canadian National Railways serves. We are ready at any time to provide industry with full information about any place on our lines in terms of available facilities, the labour situation, the water situation, the tax situation, the availability of property, and so on. That is a regular service we have had for many many years, and this has been quite successful.

As the result of that type of thing, negotiations have been completed with Cooper-Bessemer of Canada Limited, who are leasing a large area of the space in the boiler shop with an initial lease which gives them the right to take over more space at quite reasonable terms. The Cooper-Bessemer Company is a long-established American corporation, primarily engaged in the design and manufacture of compressors, gas and diesel engines. The company has told us that they have expectations that their future Canadian business will permit a gradual expansion with the hope that they will eventually occupy the entire shop area. Through 1960 their operation will be an assembly operation, and rather modest, but will be commenced with a minimum staff of around 50; and while employment will be based on the demand they expect to develop, their long-range planning envisages a work force of about 400.

Those 400 men would come very largely from those Canadian National Railways employees who had not taken advantage of opportunities for transfer. These employees, of course, under the seniority provisions I have mentioned, did have opportunities to transfer to other points. We set up a counselling service to advise each and every one of those men about what they could do, and by that service transferred a certain number. Others decided they were too old and did not want to leave Stratford, and would take their chances.

Under our arrangement with Cooper-Bessemer a fundamental part of our leasing contract with them is that they will give hiring preference first to the presently employed Canadian National Railways shop personnel and, secondly, to laid off shop employees, their selection to be based on their merits and other personal qualifications. As employment opportunities in the new operation become available, our shop employees will be informed. If they are interested in employment with the Cooper-Bessemer people the company will interview them and examine their skills. That was a project in itself, because of the size of it. It has worked out, if I may say so, extraordinarily well.

I want to go on with this because I want to cover a number of things which Mr. Chevrier, Mr. Benidickson and others have brought up, and I hope by this statement to dispose of most of the general principles.

I have sent for and have received a sort of an outline of what took place in respect of our discussion of running cabooses through terminals in the western region, and I want to remind you again that this is a local matter; we cannot at headquarters undertake to be completely informed on all these discussions that are going on. This is purely a local matter which is under the jurisdiction of the western region.

We got in touch with them last night. Fortunately there is some time differential there, so it did not matter that we were doing this at one or two o'clock in the morning, because we would not want Winnipeg to do without their sleep. But this message came in and I am going to read it just as it is. I have had very little opportunity to study it, and whether it is indiscreet or not I do not care, these are the facts.

Mr. BENIDICKSON: That is the fact I wondered about at the beginning of our sittings. This matter deals with—and I used the words yesterday—questions viewed from the eyes of management. It is a comment from the eyes of management only.

Mr. GORDON: What do you mean?

Mr. BENIDICKSON: I am afraid it might be just as you used the term, a statement from the eyes of management.

Mr. GORDON: That is right, I have no other eyes!

Mr. BENIDICKSON: But the committee is not going to get that statement from the eyes of anybody else.

Mr. GORDON: Quite true. As I say, any statement I make to the committee, is from the point of view of our managerial responsibility. This statement reads—and I remind you this comes from Mr. J.R. McMillan the vice-president in charge of our western region.

For several years (note that) we have been having discussions with the trainmen's organization endeavoring to arrange to run cabooses through terminal but have been unable to come to any satisfactory arrangement. As a result of the installation of CTC on the Minaki sub., our trains have made much better running time than we had anticipated. Many freight trains covering that sub. in three and a half to four hours. CTC will be completed on the Quibell sub. in four to five weeks and based on performance on Minaki sub. trains should make the run on the Quibell sub. in four to four and one-half hours. It becomes evident therefore that with the completion of CTC to Sioux Lookout and by eliminating delay at Reddit crews would be able to operate from Winnipeg to Sioux Lookout in nine hours or less. On February 5th a notice was written to Mr. V. Speare, General Chairman B. of L.E. Mr. R. McCallum, General Chairman, B.L.F. and E. Mr. G. Gale, General Chairman, B.R.T. requesting a meeting to discuss running through from Transcona to Sioux Lookout.

You will note that this notice was sent in accordance with the formal contents of the agreements. We had not been able to get anywhere in what might be called informal discussions.

Getting no response to this letter Mr. Berringer contacted the general chairman and a meeting was arranged to be held in general manager's office 10.00 a.m. March 4th. At this meeting the general chairman acknowledged that the company could without violating the rules run crews through Redditt but stated they would oppose such action on the grounds that a number of employees would be required to move their families. Mr. Berringer stated he was quite prepared to enter into any reasonable arrangements which would minimize inconvenience to the employees and invited the general chairman to submit a proposal. After considerable discussion Mr. Berringer—

Who is the general manager of the region—

—suggested to the general chairman (that is of the unions) that they could equalize the numbers of crews home stationed at Sioux Lookout and Transcona on the understanding that they would work first in first out/as at present and on the further understanding that rules pertaining to penalty payments for unassigned crews held away from home terminal in excess of 16 hours would be waived. The meeting adjourned at 11:30 to give the general chairmen an opportunity to study the situation and submit a proposal. Meeting reconvened at 3.30 p.m. but the general chairmen still had no definite proposal. Mr. Berringer again stated he was prepared to work out some arrangement whereby the

work would be equally distributed between crews with home terminals at Sioux Lookout and Transcona. The general chairmen declined to negotiate. In so far as eating arrangements for crews are concerned it is expected they will make the trip in nine hours or less and schedule rules will apply. Article 6.36 of engineers agreement reads quote: engineers will have the opportunity of having meals at a reasonable hour by previously advising the dispatcher. End quote. The firemen's conductors' and trainmen's agreements read the same.

The change in operation will affect a maximum of 51 positions including nine freight firemen. This figure could be reduced if some crews were assigned to work out of Sioux Lookout to Transcona. We do not think there will be any property loss or other social consequences other than those normally occurring when employees transfer or exercise seniority as we will still have a staff of over 225 employees with annual payroll of approximately one million dollars at Sioux Lookout.

Effective dates and expiry dates of running trades agreements western region are as follows: B.L.F. & E effective April 1, 1958 terminates March 31st, 1961. B. of L.E. effective May 1, 1958 terminates April 30th, 1961. B. of R.T. effective June 1, 1958 terminates May 31st, 1961.

There was another question and while I am cleaning them up I might as well deal with this. I think it was Mr. Fisher who asked this. In any event, this message reads:

No changes are contemplated in operations between Sioux Lookout and Armstrong affecting train and engine crews but with installation of C.T.C. between Sioux Lookout and Armstrong there will be some operators positions dispensed with. Effective with change of time card April 24th train crews on 403 and 404 will operate through from Hornepayne to Armstrong. This will not affect engine crews who will continue to operate between Armstrong and Nakina and Nakina and Hornepayne. With reference article 4 (D) B. of L.F. & E. agreement this reads quote:

Terminals defined: the following stations constitute terminals within the meaning of the term and may be eliminated or added to by giving the general chairman fifteen (15) days notice in writing and bulletining same on the district affected over the signature of the general superintendent end quote.

Thirty-two stations are listed including Redditt, Sioux Lookout and Transcona. The article is clear and speaks for itself, it gives us complete freedom to eliminate or add to terminals subject only to the requirement fifteen days notice and bulletining on the district. The article in engineers agreement is identical. The conductors' and trainmen's agreements are also identical excepting that bulletin is only issued to the division affected.

And that is all there is on that particular point.

We did learn from getting in touch with the Canadian Pacific Railway that their agreements are practically the same as ours but we have not made a detailed examination of them so we can only make that general statement.

I want to say this as a final point,—and I hope the committee will bear with me for the reason that I mentioned that I have not had an opportunity to give this mature thought in respect of how to state it, and herefore I am stating it in the best language that I can under these circumstances.

I said yesterday that it is vital to efficient management that the discipline, control and direction of the working force be recognized solely as a managerial

responsibility. If the recognized procedures for dealing with the interpretation and administration of agreements or working agreements generally are to be bypassed by appeal that are intended to go over the head of management—and I stress that—by appeals which are obviously intended to go over the head of management, then I see nothing but chaos, and a breakdown in our negotiating and bargaining process; and that will not only hurt management but it will very definitely hurt labour.

What we have been discussing is a detail of the problem of labour relations which can only be worked out between labour and management, and in accordance with the established procedure. The established procedure has been worked out over many years in detailed negotiations and in terms of the recognized conditions of employment. There is nothing new about this business of man in the running trades having to accept transfers or moves; that has been part of the business of railroading ever since railroading started, and that is why these agreements are in existence. That is why these conditions are in existence. And so I say to you in all earnestness that this attempt to bring particular cases before the committee seems to me to be a new development, and a development of which I must take a most serious view; for the general position is that it suggests political interference with management in regard to what is, after all a normal part of managerial responsibility.

Mr. CHEVRIER: May I have the answers to those questions I asked at the beginning of these sittings? I think you asked Mr. Dingle for them—how many subdivisions in which centralized traffic control has already been established, how many were done in 1960 and how many remain to be done?

Mr. DINGLE: Up to the end of 1959, Mr. Chevrier, roughly 1,200 miles of CTC or about ten subdivisions. We had in play through 1959 another five or six subdivisions with an addition this year of about four more, so that by the end of 1960 we will have roughly about 836 miles to add to our total of 1,200.

Mr. BENIDICKSON: May I make a comment following that point?

The CHAIRMAN: Mr. Fraser had the nod first and then Mr. Fisher.

Mr. FRASER: This is not on the same subject.

Mr. FISHER: I guess we are going to be on this subject for quite a while.

The CHAIRMAN: Then Mr. Fisher has the floor first.

Mr. BENIDICKSON: As long as it is in sequence.

The CHAIRMAN: I do not want anybody to think I am cutting him off in preference to anyone else. I have to take nods almost as an auctioneer would take them, if someone raises his hand, like Mr. Fisher. Mr. Fisher is first, then Mr. Benidickson.

Mr. FRASER: When this subject is exhausted, then I would like to ask something.

The CHAIRMAN: Very well then, Mr. Fisher.

Mr. FISHER: I always appreciate these lectures, Mr. Chairman, and I think there is a lot of merit in what Mr. Gordon has advanced—and he will not find me quarrelling with him—that in the main this is a labour-management situation. But I think in focussing upon that, Mr. Gordon, you must realize there is a third party involved in this. This is where the politician is always stuck; and, more than the position of the politician being stuck, you used the case of Startford and you did a good job there. But what can be done with Sioux Lookout, Hornepayne or Armstrong, where the problem is a much larger one, in scale.

This reinforces my point that you can spot CTC development, but that there has been no work done in communications. You say Mr. McMillan has been negotiating for two years.

Mr. GORDON: Mr. McMillan's own statement is that for several years—how does it start there?

For several years we have been having discussions with the trainmen's organization endeavoring to arrange to run cabooses through terminal—

You see, the point I am on is this—and I must be careful here that I am not making an accusation against labour.

Under the terms of the wage agreements, the condition in respect of what constitutes formal notice is spelled out in detail. Any discussions we may have had have no bearing on it. They can take the position: "we have never heard of it". And they do take that position.

Therefore, I think one of the questions you asked me once before was along the lines, "Can you not give more notice?" Yes, but my point is I am bound by the agreements and there is no notice of any kind that has any effect except in terms of those agreements. I know I sound critical of labour. I do not intend it to be that way. We have every understanding of and sympathy with these labour men acting for these organizations who are in a very difficult position. My only suggestion on it—and we have made it from time to time—is that they will have to get into the frame of mind of accepting the facts, and they are not prepared to do that. They are still in the situation that a great many of these working agreements have to do with situations that concerned steam locomotives. That is where this ugly term, which I never use myself, "feather bedding", comes in. I do not use "feather bedding"; it is an offensive term and it stirs up objections on both sides. I deplore the fact that there has been a campaign in the United States with reference to the word.

We are anxious to sit down with labour and discuss with them the rules, and to recommend any changes in practices which would be to our mutual advantage. But it will be a long, tedious business, and we can only do it by bringing these things to a head.

Mr. FISHER: For the last five years it has been as plain as the nose on your face, to most people who looked at the problem of where the Canadian National Railways was going. There were going to be terrific changes, like the C.T.C. and many other things in all parts of the system. You say this is strictly a management-labour business, that people like Mr. Benidickson and myself should keep our noses out of it. How can you do it when it is so deeply involved with the community? How can you keep your nose out of it?

Mr. GORDON: Well, my reply to that is that you just must. The situation is this: you say plain as the nose on your face. Certainly it is. I sat on this committee, I think, in 1952 and outlined that there was to be dieselization, and said that that meant a great deal of disruption and change. I have said that all the time.

We cannot and have never attempted to do anything on the basis of imposing a master plan all across Canada. We can only work it out on step by step basis. We had a five-year program to start with, which was very carefully explained; and at the end of that five-year program we took the next step. We are now beginning gradually to implement all the real improvements. That is what has been building up for the last seven or eight years. It happens that Redditt now is the one that is under discussion. Next month it will be some place else, and the next month somewhere else. We cannot do it on the basis of a national discussion. It has got to be a local discussion having to do with the particular district or area where these things are taking place.

Mr. FISHER: This recalcitrance that you are imputing on the part of labour, one of the reasons is that the third party in the basis of labour and management discussion has not been considered, and this is where I put a

responsibility on the railway for not advising of the move. I have not found railroaders in Nakina or Hornepayne were afraid of being transferred or losing their jobs. It is the insecurity of not knowing.

Mr. GORDON: I do not follow that, because the circumstances under which these changes take place are contemplated in the very conditions of the employment which are written into that wage agreement. I say there is absolutely nothing new in expecting our running trades to adjust themselves to change. It is contemplated in the agreement.

Mr. FISHER: I had relatives who had to move all over the west, from Melville to British Columbia. I know that. But the situation is that here we have communities in turmoil, and if these communities are in turmoil you cannot toss it off by saying the politicians are at fault for listening to these people.

Mr. GORDON: I am not blaming the politicians. I am simply pointing out to the politicians, if that is what you are concerned about, that it is quite impossible for labour disputes to be dealt with on a basis of an attempt to go over management's head. Management accepts full responsibility in regard to its relations with labour. We know all the difficulties, and we have got to sit down—that is, management and labour—and work it out. The third party that you have referred to coming in will not do anything but muddy the waters and make it more difficult. It is our responsibility, and we must have the discipline, control and direction—the hiring and firing—of our working forces. That is a fundamental prerogative of management and nothing can take its

Mr. FISHER: I have to agree with that completely but, because there is a community responsibility, why could you not let these communities know? Mr. Benidickson mentioned debentures; there is land there. You have a small research staff and know where you are going.

Mr. GORDON: What do you mean "let them know"? When we had a massive situation, such as we described at Stratford, there was an opportunity for discussion, but those concerned points of detail. We attempt to do what is practical in the particular circumstance. We are not talking about a massive movement out of Redditt or a massive change in Sioux Lookout, we are talking in terms of an incidental impact that affects a certain group of people.

Mr. BENIDICKSON: It is surely relevant at Redditt, which will be practically a fold-up if you withdraw. Later on I wish to go to another point but, I take it, you are leaving a token strength there, and it is for a purpose which I question is a high purpose.

I am coming now to section 182 of the Railway Act. / "X"

Mr. FISHER: Do you rule out the possibility of the C.N.R. projecting in some detail those plans and how they are going to affect the employee situation and the population of the community?

Mr. GORDON: No, I do not rule it out, but I do not know what you mean.

Mr. FISHER: Well you know, do you not, that there are going to be changes all along that line in terms of personnel?

Mr. GORDON: Yes. Are you suggesting that in addition to contacting our labour forces that we should go to the mayor of every community and say: please, will you agree with us; we are going to do thus and so?

Mr. FISHER: You do not have to say "please" anything; you just have to tell the truth as to what the situation is going to be.

Mr. GORDON: Mr. Dingle, can you tell me what takes place? Have we had discussions in these communities?

Mr. S. F. DINGLE (*Vice-President, Canadian National Railways*): In the case of Sioux Lookout, our general manager and general superintendent spoke

to the mayor, the head of the chamber of commerce and fourteen citizens in the town. That happened early this month.

Mr. BENIDICKSON: With respect to a move of 82 families, which was to take place in April.

Mr. DINGLE: The end of April.

Mr. FISHER: I find that most of these communities are ready for this sort of thing, if they knew what was coming off, and when.

Mr. GORDON: In practice, we find they only know when it happens. It does not matter how much talk we may have, they never know until it happens.

Mr. FISHER: Let us get down to a specific case. This is what I have to fall back on as well as, I suppose, the member for Belleville and the member for Kenora-Rainy River. What are you going to do about the future plans within the region down at Foleyet? What are the terminals that are going to go? Can you reveal this?

Mr. GORDON: I do not know of my own knowledge at the present time. That is a local matter which has to be worked out in the local divisions. If you are saying to me that in your own opinion we have been negligent or not as good as we might have been in discussing these things with communities, I am certainly prepared to look into that. I will accept that as a word of advice and see whether we can do better. I do not know enough about the practicalities of it, but nobody ever seems to accept anything until it happens. I will work out some means whereby we will see if we can notify communities in such a way that they will be able when it happens to know that they were told.

Mr. FISHER: Allow me to give an example. Last year I went in to Hornepayne and spoke to a large audience. Before that I was getting beefs at the rate of two a week; I think I have had one since.

Mr. GORDON: Let me ask you this: do you think as a practising and very successful politician that if we gave a year's notice to some community in your constituency that we are going to do thus and so before it takes place, that it would relieve you of representations?

Mr. FISHER: It would not only relieve me of representations; I think it would relieve a hell of a lot of people. One thing that I know about railroaders is that they want to know what the situation is, and I blame both management and the unions for not enlightening them. A couple of those union representatives are my friends, and I blame them for not putting the case clearly and boldly before them.

Mr. GORDON: I will take that advice to heart, and we will see how we can establish a means whereby notice of intention is given in such a way that there is no misunderstanding. However it will not relieve the politician, because when a thing has not happened that is the time the pressure is on the politicians.

Mr. FISHER: I think that any of us who represent C.N.R. divisional points are going to be honest enough to tell the people that they cannot stand in the way of what I think is technical progress and, in the long run, progress for the railroad; but they have a right to know.

One of the main points I hear discussed is: what is the C.N.R. going to do with the odd division? You have an odd division between Winnipeg and Toronto. What are you going to do with it? Is it Nakina, Hornepayne, or what, that is going to get the break?

Mr. GORDON: Your suggestion is that as soon as we know, ourselves, we should not only discuss it with labour but should notify the communities.

Mr. FISHER: Very much so.

Mr. GORDON: Does the committee agree with that? I would like to have the expression of opinion—because I know what is going to happen, sure as shootin'. In fact, it has.

Mr. FISHER: I do not think you should go into it if you know what is going to happen.

Mr. GORDON: I want you to accept this as a fact of life—that advance notice as you suggest, and which can only be in general terms and cannot be worked out until we get specific understandings with labour in terms of the agreement which affects the particular trades, and that can be done only by a rigid application of this agreement, can only result in agitations, delegations, objections and so forth to you. If you are prepared to accept that and not put pressure on management, I am with you.

Mr. FISHER: All right, but let me tell you this, Mr. Gordon: there is one group of railway workers that has been affected much more than the running trades, and that is the maintenance of way people. They have also taken a beating.

Mr. GORDON: Yes, but the maintenance of way is a different situation. I am only in a position to speak in regard to generalities, but I think Mr. Dingle could give you more information on that. The maintenance of way covers different types of employees. There are extra gangs, which are quite accustomed to being laid off, taken on again, and then laid off. As you know, there has been much development in the use of machinery. You saw some of it yesterday on the charts where we made large capital investments for machinery. In that respect labour seems to accept that development.

Mr. FISHER: And I know why; it is because they are not organized.

Mr. GORDON: Oh yes, they are.

Mr. FISHER: But they are not organized in the way the running trades are. They have not the coherence, and they do not get a chance to talk with each other. They are spread out. I have received numerous complaints from maintenance of way people who do not know what has happened to them.

Mr. GORDON: I can understand that, because the people you are talking about are probably people who were not called back to work. My point is right there; that is recognized and accepted because it happens. They see the machine spreading ballast; they see the men working; the rails are put down, and the work is done. They see that there is no need for them so they accept it. The point that we are discussing here is that the running trades will not accept the impact of dieselization and will not accept the fact at this point that these conditions of run-throughs and other things is an integral part of the dieselization development. It all flows from the fact that we have changed from steam locomotives to diesel.

However, Mr. Fisher, I accept your general point, and will give you my undertaking to do the best I can to see if we can work out a situation where notices to communities, in such forms as we will be able to demonstrate, are given.

Mr. FISHER: There is one other point—and probably Mr. Benidickson will touch on this—and it is that I hope the responsibility of the politician and people like the Minister of Transport will come into this, in so far as guarantees of job security, severance pay and so on. I agree it is a political matter. Surely management is in the position, and has been, to make recommendations to the minister or to the government in this regard.

Mr. GORDON: Well, to follow that line of thinking, surely management would first have to accept that there is a condition attached to what it is prepared to make recommendations about. Now, we are no different in that

respect than any industry in the country. We do not think that what we are doing is of a nature that requires special treatment in the form of legislation, or anything of that kind.

Mr. FISHER: You cannot see that there needs to be any sort of master plan in order to face up to technological changes.

Mr. GORDON: No workable plan, no.

The CHAIRMAN: On this point, I speak not as chairman but as a member of the committee. It seems to me that Mr. Fisher's point is well taken in one respect, but Mr. Gordon asked how the committee felt as a whole.

In regard to this advance notice to the community, as you might call it, I am glad that Mr. Fisher mentioned that labour unions, especially the heads of labour unions have a keen responsibility in this. I do not think we should leave the impression that the management of the railway should go to the reeves, the mayors and the politicians in regard to this situation. After all, the people who are directly affected are members of unions. They have union leaders and, outside of the management, they know better than anyone else the future plans. They receive information in advance. They can find out easier, and they have a responsibility as well to advise their members; and that might relieve us as politicians to quite an extent.

I think the impression should not be left that management of the railroad should be in touch with the minister, the politicians or the mayors because it is a matter between the union, their employers and employees. As I said before, I think the union heads should do their duty and keep their members informed of what they know. Modern labour organizations are practically the first ones to know of any developments.

Mr. FISHER: I do not think that has applied in the case of the C.N.R. We are here for the purpose of checking on the efficiency and operation of the C.N.R.

The CHAIRMAN: But I think we are getting a little off the track when we start talking about the attitude of the community.

Mr. GORDON: Mr. Fisher, as I understand him, is further alleging than an adequate job is not being done in regard to what he has been discussing.

I have here some extracts from instructions which have gone out to our local officers, and they relate as to how to handle these particular things. It is quite lengthy and I will not read all of it. After dealing with the general question of how to handle surplus employees, in the form of telling them what new jobs might be available and what retraining procedures might be available, and other things, here are the two paragraphs which touch on the point you mentioned. These are instructions which have gone out to our local officers:

At or about the time employees are first notified of an impending layoff, unions should also be informed, preferably through a meeting with appropriate union officers. It is clearly understood that management will not enter into negotiations about its right to lay off employees.

Particular situations and differing relationships with unions will affect the timing and method of advising the unions. In many cases it would enhance union-management relations if union officials were advised slightly in advance of the employees, on the understanding that management would inform the employees directly. Meetings with the union will enable management to seek the co-operation of the union and solicit their comments and suggestions.

Then, under the heading "communicating with community officials and public":

In some cases, where a layoff will have a considerable impact on the community, meetings with civic authorities should be held at the

time of general notice of intent or, at least, well in advance of the actual staff reductions. The meetings should provide information on the company's intentions and plans to assist workers in finding new employment. Where advisable, press releases issued through the public relations department, announcing an impending layoff, should follow notices to unions and employees.

That is management policy and, as I take it, you are telling me that that policy has not been effective.

Mr. FISHER: Not a bit.

Mr. GORDON: Well, I will take steps to see what can be done to improve the situation.

Mr. CARTER: Apparently, there are two points in what you say. Mr. Fisher thinks this policy is not being implemented and, therefore, not effective. Also, it has been alleged the union is falling down on their job. Mr. Gordon has said the unions will not accept the facts of life. Is that the reason why the unions are not carrying out their responsibilities in this matter? And if the unions are not accepting the facts of life with regard to this technological development, has Mr. Gordon analyzed the reason why they have not? Do they not believe or trust you, or is there a wrong personal relationship there? Can you tell us the reason why?

Mr. GORDON: Yes, I know. It seems apparent to us that the unions prefer to abide strictly by the existing agreement. They have their own reasons for that, and I respect their reasons. If they think it is to their advantage, they are entitled to take that point of view. We have found that when we attempt to deviate from any condition of seniority, not only in respect to this but other matters—and the minister will remember one particular occasion when we tried to get a change in seniority provisions—the union representatives have decided, as a matter of their own policy, that it is better for them and the men they represent to abide strictly by the terms of the wage agreement. If there is to be any change it must be a matter of negotiating a change in the agreement. Now, as I say, that works out to the advantage of labour in many cases, in respect to particular branches. It will not do it in every group. But the fact is the conditions of seniority generally work to the advantage of the particular agreement that may be under discussion, and they do not want to change it.

Mr. CARTER: Are not the agreements based on the facts of life?

Mr. GORDON: Yes, they are. They are in this respect, that these agreements and conditions of the agreements have been negotiated in recognition of the conditions in the railway industry. Now, transfers and moves are part of the normal condition of life of a railroader, but with the impact of dieselization that situation has become intensified. There is more of it than there used to be. But the circumstances—the agreement, the recognition of what was done in terms of moves or transfers, is in the agreement; and they prefer to abide by it. That is their right.

Mr. CARTER: Then they are accepting the facts of life if they are insisting on the letter of the agreement.

Mr. GORDON: That is their interpretation of the facts of life. But in the case, which we were discussing, we in management were prepared to suggest a compromise. It was a good proposition, which we thought would be more beneficial to them, and in their judgment they decided it was not.

Mr. CARTER: It is a matter of interpretation then?

Mr. GORDON: Yes, it is. It is a matter of interpretation as to what is the better thing for the men; is that not right Mr. Dingle?

Mr. DINGLE: Yes.

Mr. GORDON: However, they are entitled to their opinion, and we do not object to it.

Mr. BENEDICKSON: I too have found Mr. Gordon's lecture interesting and, in the main, I agree with it.

First of all, I make no apology for introducing this subject, because I think the circumstances are unusual. First of all, it just happens that what is going on in my own riding is obviously something in the nature of a guinea pig proposition. We can see that C.T.C. is going to develop in various ways in other sections of the country.

In addition to that, something that has not been discussed is the Railway Act. We are all interested in that. Also, besides that, we know that this year the national legislative committee of the international brotherhood, who annually make a presentation to the cabinet, in making the presentation this year devoted more than half of their brief to a statement or to remarks about section 182 of the Railway Act, which they are suggesting to the government is not meeting today's conditions.

As long ago as 1913, with respect to railway employees, Parliament decided that there was a social need for recognizing the havoc caused by the elimination of terminals and the like. The section reads as follows:

The company shall not, at any time, make any change, alteration or deviation in the railway, or any portion thereof, until the provisions of section 181 are fully complied with, nor remove, close, or abandon any station, or divisional point nor create a new divisional point that would involve the removal of employees, without leave of the board; and where any such change—

—and, as you know, this indicates parliamentary intent as long ago as 1913—
—is made the company shall compensate its employees as the board deems proper for any financial loss caused to them by change of residence necessitated thereby.

Now I draw this to the attention of my colleagues in parliament here, because we have now had a good exercise in examining our own crown company as to how automation and the like today is affecting employees. We are aware, and we are told that this section is not adequate. I am told for instance that at Redditt—I think everybody is convinced that as far as Redditt is concerned, it is being by-passed. But technically, I think the Canadian National Railways will take the position that it is not being closed, and that they are going to leave two token crews there. If they leave one or two token crews there, then I am told under the terms of this 1913 statute it can be alleged that Redditt has not been abandoned as a terminal.

I raise this matter because it is going to come up in Parliament, but I am not going to press it further.

I am pleased because it has been indicated to me that Mr. Gordon and Mr. Dingle, when we have concluded our discussion here, are going to carry out a discussion with community representatives at Sioux Lookout, and with representatives of the brotherhoods from both the eastern region and the western region, who have been observing our proceedings throughout.

Mr. GORDON: Mr. Chairman, if I might make a comment on both points—I must be very careful to restrain the vigor of my voice, for apparently I have been giving an impression to both Mr. Fisher and to Mr. Benidickson, since they have referred to my statement as a lecture.

I know from past experience what will happen. The press of this country will take that word and produce the headlines "Gordon read the committee

a lecture". But that is not true. If it sounded like a lecture, it was intended merely as a statement of my position in respect to the management of this property.

If I do express myself with some vigor, I am sorry. I cannot help it. I cannot speak in any other way. But I do think that I manage to get over the point of view I am trying to express.

I would like to ask Mr. Fisher and Mr. Benidickson as a personal favour to me to withdraw that remark about my giving a lecture.

Mr. BENIDICKSON: I am quite prepared to do so. They were Mr. Fisher's words anyway.

Mr. GORDON: May I ask Mr. Fisher to withdraw as well?

Mr. FISHER: As someone who has lectured for a living, I have never thought of it as being an invidious term in the sense you mention. But all right, I will withdraw.

Mr. BENIDICKSON: There are a lot of people who think that the worst you can say about anybody is to call him a politician.

Mr. GORDON: I know from bitter experience that that sort of thing does work a lot of damage.

Mr. FISHER: I hope you are aware that we have much more respect for the press at times than you have.

Mr. GORDON: Perhaps I have been developing a lack of sensitivity, but I am still sensitive to press opinion.

Mr. HOWE: Mr. Chevrier brought up the question of Stratford. Could you indicate to us what the area plan will be for Stratford and that part of western Ontario?

Mr. GORDON: In what respect?

Mr. HOWE: I mean whether or not a terminal operation is going to be located in that district?

Mr. GORDON: Are you talking about the reorganization plan, our general reorganization?

Mr. HOWE: That is right.

Mr. GORDON: I cannot give it to you yet because we are still in the process of considering it. We have not made the decision yet; but from the operational point of view perhaps Mr. Dingle might say a word. As I said yesterday we are considering and sturying how best to achieve decentralization of the administration of this vast property. It is a very complex subject. Everything in railroading seems to be that way; and it will involve administrative changes affecting the supervision of the railway.

We are now examining the method of area management, but I am not ready yet to give the details of it because it is still in the examination stage.

Mr. HOWE: The reason I brought this up is that I have always been interested in the small terminal at Palmerston which has been practically eliminated. And last year I brought to your attention the fact that there were about ten or eleven men left in Palmerston who had approximately 40 years of seniority apiece; they were mechanics and labourers. The situation at Palmerston lends itself to the position where a small maintenance and servicing crew should be maintained there, because there are still seven diesels situated there, with two dayliners going through it, as well as eight or ten other diesels.

I thought this would take up some of the slack for these older men and make it possible for them to remain there.

About three weeks ago I learned, and in speaking to you in the meantime you intimated that the suggested plan would probably be carried out.

In fact I have a letter from you in that respect received about three weeks ago. I wrote to you and asked you if the plan would be brought into force, and I was rather surprised.

About a week later I received an acknowledgement from you in regard to my letter; but about a week later on information from the district I learned that the men still there were going to be cut off. Yet your letter had intimated that your officials would consider it, and would let me know. I was rather perturbed about it, and I wondered if you had any comment to make on the matter.

Mr. GORDON: I am not familiar with it. I do remember our discussion last year, and I remember when I looked into it that the particular point you are raising at that time seemed to be settled.

But you must again understand that this is a district matter, and that the handling of these arrangements with employees must be taken care of by the local officials. There may have been changes. Perhaps Mr. Dingle is aware of the situation.

Mr. DINGLE: No. I shall have to look into it.

Mr. GORDON: I do not know what happened, but I would be glad to look into it to see what the reasons are. But undoubtedly changes arose out of this. It may be that at one stage of our program we probably did not need to do it, but now we are getting towards complete dieselization; and it may very well be that with complete dieselization, this temporary situation you refer to had to be cleared up. But I shall look into it and let you know.

Mr. HOWE: I still feel it would be economically sound in view of the equipment going through there. I would like to mention a situation which happened last winter when one of these men, 63 years old, changed some filters on a diesel, and thereby saved a major job which would have cost some \$1,000 to \$1,500. He was not supposed to do it, but he did do it, and he was able to keep the train running.

Mr. GORDON: You must remember that detailed operations of particular trains, and items connected with them cannot be dealt with in isolation in a particular case. It has to be entrusted to the officials who are charged with the operation of those trains.

It is true that an individual employee might make out a good case about some particular incidents. We have to abide by a pattern which in the overall will give us the most efficient results.

Mr. HOWE: I realize that. I know that you are involved with more than one small, little terminal; but looking at the map, I still feel that there should be a maintenance and service crew left at Palmerston. Moreover, there are seven diesel unit locomotives there, and they have to be taken a considerable distance, as much as 40 miles away, to be refueled. That does not sound like sound economics.

Mr. GORDON: There are a lot of things on the railway that do not make sense to a layman. Probably it was done as a result of your representations to me, when we thought we would satisfy you for a while!

Mr. HOWE: I still represent those people.

Mr. GORDON: I understand your question and we will give you a full report on it.

Mr. GRILLS: I would like to say that I have been called a politician by Mr. Gordon more often than I have liked.

Mr. GORDON: I do not know if I looked at you when I stated that! If I used the word "politician", I was using it both as a term of endearment as well as of respect.

Mr. GRILLS: That is like my calling you the big boss; you do not want me to do that. I think the word politician carries a little doubt in some people's minds, as to whether it signifies an honest individual or not.

Mr. GORDON: Not in my mind.

Mr. GRILLS: I like to think of a politician as representing the people. And now I am thinking of my home town of Belleville, which was built around the railroad. The railroad helped to build it. Now I hate to see them tear it apart. I like to represent those people as I do all the rest. They do not call me a politician. I try to get them to call me "Lee".

There is something going on there as to which I have not been able to get a clear answer, as yet. You have started running your trains through our terminal. That to us is a serious offence. We love it. It is the best place on earth, because it is our home.

MR. GRILLS: What prompted you to run those trains through the Belleville terminal?

Mr. GORDON: That is purely a matter for Mr. Dingle to explain.

Mr. DINGLE: All it amounted to was the fact that on the eastern run, with present competition, we had to speed up our service. We also had to get some returns on our money invested in diesels. We have found that we can make the run from Mimico through Brockville without any hardship to the men, so far as their working hours are concerned.

This matter was discussed thoroughly at regional level, and it was brought up by Mr. Travers representing labour. I understand they are taking it up now to a board of adjustment. I think we should leave it to that body, which is certainly well able to deal with a matter of that sort.

Mr. GORDON: You say there is a time saving?

Mr. DINGLE: Yes, time and money.

Mr. GORDON: In other words, it is to permit a freight train, hauled by diesel, to go from Mimico to Brockville without stopping at Belleville for servicing; is that not the general idea?

Mr. DINGLE: Yes.

Mr. GORDON: Every stop costs money; every service costs money; and if we do not need it, then we have to eliminate it. That is part of the economy of dieselization. It is very similar to what we have been discussing concerning Sioux Lookout and Redditt.

Mr. GRILLS: Your train slows down to four miles an hour when going through. Is that not right?

Mr. GORDON: I do not know.

Mr. DINGLE: They slow down, yes.

Mr. GRILLS: How much is that saving you? These engineers have made the railroad their life, just as you are making your work your life today. They are in exactly the same position. They spend their lives there; they have their families there. They have raised their families there.

Mr. GORDON: Yes, that is so. But if it became a matter of efficiency to move our headquarters from Montreal to Toronto, then Mr. Dingle would adjust himself to it.

Mr. CHEVRIER: I hope you will not do that.

Mr. GORDON: I said only if it became a matter of efficiency. I qualified it. All across this country—there is no use trying to blink it; I remember making this clear to the committee time and again—all across this country there are going to have to be changes made in respect to our servicing points, and conditions of employment, which have hitherto been the case in connection with steam locomotive operations. We have been doing it gradually. In fact we have done it in quite a number of places when we have heard nothing about it.

I do not want to mention those places because they might wake up to discover what has happened to them. But it has been done in many, many places. There is nothing new about this.

When we come to a place like Belleville, we find a specific impact there, because Belleville has been a railway town in a sense that was considered important.

On the other hand, take the case of Stratford. It had to meet the same kind of impact, but it is part of the economics of dieselization; and there will be some places affected more than others; but you must leave it to management to work it out in the best way possible.

Mr. GRILLS: I still think that the savings to the railroad in dieselization should not all be taken out of the hides of human beings. I think there is a responsibility towards the people who live there, and who have contributed all they have to this railroad.

Mr. GORDON: We recognize that responsibility to the people in Belleville who have been affected by this change. They are still open for other developments. It is just a matter of change.

Mr. DINGLE: It is only the assigned crews who are running through Belleville, on certain trains.

Mr. GRILLS: What is the intention for the future? Is it your intention to run all trains through the Belleville terminal?

Mr. DINGLE: It could be, but we have not decided it as of the moment.

Mr. GRILLS: Is there any thought in your mind of compensating these people in any way for their having to move to Mimico?

Mr. GORDON: If they have to move their home, we provide them with free transportation. I think that is part of the wage agreement. Let me repeat: conditions which affect a move have been worked out in Canadian labour unions, and in fact every wage agreement has a clause or clauses which spell out the situation under which these movements and transfers can be conducted. We have carefully followed these agreements.

The CHAIRMAN: Perhaps I might interject at this point.

There are many things Mr. Gordon has said this morning which I think might be remembered. I think there is one thing which should be remembered for the protection of ourselves as politicians as well. That is, in the labour agreements those provisions are made; and I think you, Mr. Fisher, said that there are responsibilities both ways. I think it relates as well to politicians. I am not like Mr. Grills; I do not mind being called a politician, because the best definition I have heard is that he is one who could travel close enough to public sentiment that his admirers might think he is leading it, but who makes sure he was not far enough ahead of it to get run over.

Mr. GRILLS: Perhaps I should not say this, but I run up and down on the trains, and once in a while I sneak in the locomotive, and ride up there. Do not ask whom I rode with. Anyway, from what I can gather it is a matter of opinion whether or not they are as competent for the entire run as on a shorter run. You say there is a saving. Where is the saving?

Mr. GORDON: There is no individual who can form a judgment about railway operations just by looking at an isolated movement such as you are describing. I do not know what business you are in.

Mr. GRILLS: I am in the milk business.

Mr. GORDON: I am sure you make an awful mess of it. I am sure you are not running it right. I am sure if I walked into your business I could say this is wrong and that is wrong, and you would say, Gordon, you do not know a darn thing about it. You would be right.

Mr. GRILLS: I have said before that I do not know how to run a railroad.

Mr. GORDON: I am discovering that everybody knows how to run a railroad.

Mr. FISHER: Now you are lecturing us.

Mr. GRILLS: That is why I think you should hear some of the problems from the men involved.

Mr. GORDON: I am delighted to hear them; but when you express the opinion that this and that is wrong in respect of an operation, I am saying you cannot be a competent witness.

Mr. GRILLS: I am asking for the answer so I will know.

Mr. GORDON: I think we have given the answer.

Mr. CHEVRIER: Is there not more to this whole problem than labour and management?

You have indicated there was a labour agreement and that in this agreement there are terms. But there is also a community. Surely, the community cannot be left outside of this, and over and above that there is capital.

Mr. GORDON: Why does that apply to the Canadian National Railways and not to other industry?

Mr. CHEVRIER: I am asking you the question. It seems to me in this discussion we have had there is a third and even a fourth party. I do not want to be critical of the government because I suppose it could be said it applied when we were in office. However, capital is furnished by government and I think government should look at this problem as well as the community. I am wondering whether or not there may be some possibility of working out a plan such as you have worked out, for instance, at Stratford, which seems to have been a complete success. I do not mean that the Canadian National Railways should be the sole body responsible, but it seems to me that a committee or group representing the four elements might well look at the problems which are involved in an area such as Belleville.

I know there are some difficulties in Cornwall. I am sure that also applies in certain parts of the province of Quebec. I am wondering if there is not a possibility of looking at that problem not only from the labour and management aspect but also from the aspect of the other two groups which I think form a very important part of the problem.

Mr. CHOWN: Mr. Chairman, surely this is being done in these localities on the initiative of these local community groups. It certainly is done in Winnipeg.

Mr. GORDON: What I take from this is a suggestion in regard to what might be called a redundancy of labour arising out of technological change and that it should form a subject for political parties to have a policy to determine whether or not it is a governmental or national responsibility. That is something for you to decide, if it is that kind of thing. My only suggestion is it should not be applied solely to the C.N.R.

Mr. CHEVRIER: I do not suggest political parties. I do not think that would be helpful. I think if it were a group composed of representatives on the civil service level of government, the community, the railway and management, that then you would get away from the political aspect.

Mr. GORDON: Surely you have to expand that to include all industry. These changes are not only applicable to the railway business. There are many communities in Canada which have been affected by other industries either going in or going out.

Mr. CHEVRIER: I am not going to quarrel with you as to how it should be done. The point is I think something should be done. I will give you as an example the Port of Hawkesbury where the government of the province of

Nova Scotia, the railway, and the municipality, did a great deal when the ferry service was put out of business. Subject to correction, I think it was successful in putting that community in perhaps a better position than it was when the ferry disappeared.

Mr. GORDON: I have just had handed to me this morning's paper which has the following headline: "thirty-five hundred men laid off at Chrysler." Is that something that the committee is going to take cognizance of?

Mr. CHEVRIER: But Chrysler is not provided with funds by the government.

Mr. GORDON: No.

Mr. CHEVRIER: In this case we are voting parliamentary funds in order to assist the Canadian National Railways. I think that puts a different complexion on it.

Mr. GORDON: I beg to disagree. You have got to recognize that you are either going to let the C.N.R. be managed as a business corporation, or not. I have made my statement on that. I think you will find in all the debates which have ever taken place in parliament it was understood that the C.N.R. should function on precisely the same business basis as any other corporation. I am simply saying that if you change this you alter the whole concept of the C.N.R.

Mr. BROOME: If other corporations have deficits like the C.N.R. the government does not pay them. You have all the advantages of free enterprise and yet none of the control by the shareholders or a board of directors.

Some hon. MEMBERS: Oh, oh.

Mr. SMITH (*Simcoe North*): That is not so.

Mr. CHEVRIER: I agree with you that management should have full responsibility for operating the affairs of the Canadian National Railways, but can management not do a great deal more than it is doing in cooperation with the community and the government to settle some of these difficulties which arise from time to time? I think that is the point which the member from Belleville was bringing forward.

Mr. GORDON: Yes. Surely the best answer to that is that we are doing as well as our principal competitor. We are doing as well as the Canadian Pacific Railway in the management of these difficult problems.

Mr. CHEVRIER: I will not take issue with you on this, but that does not say you cannot do better than you are doing.

Mr. GORDON: We are trying. Mr. Fisher has criticized us from the standpoint of communication with the communities and has questioned if the policy has been effective and I have said we will undertake to see if it can be more effective.

The CHAIRMAN: We are more or less getting back into the political realm from a business management proposition. An awful lot of this discussion is irrelevant to the management of the railway as such. The Canadian National Railways' management should not be asked to do more in personnel relations than any other company. Every other company has personnel relations officers studying these matters. I do not want to give the government any more responsibility than is necessary, but in cases of emergency where there is great dislocation it might become a government responsibility.

I do believe, however, we as a committee should review this business proposition as businessmen. It is not a case of what will win us the most votes in the next election or what will be the nicest for the community. As we all know, many of us have often tried to get industries into our districts. We have had industries close down in our districts and move into another

district. The other district has benefited and we did not hold it against the company which moved out or give the one which moved in any particular bonus. I do not think we should try to patch every sore spot. I think we should stick to whether or not it is a sound change in the national interest. It is a question of whether or not these changes due to modernization, methods, automation, hump yards, and so on, are in the national interest or in the interest of the taxpayers; and we are here as well to represent the taxpayers of the country. It is true there is a large deficit, but in a great many cases that is caused by obsolescence. If we get enough modernization we might save \$100 million as has been pointed out. If modernization can save that sum and in the process a community is upset, I would go so far as to say it is a matter for the Minister of Transport and his government to heal these wounds in the various districts, as is the case with industrial management. Industrial management has problems whether or not it has government support.

God knows railroads have their problems. We are the most railroaded people in the world. In many cases we have a double system across the country. I am appealing to the committee to get back on the relevant issue and discuss it as business men as a business management proposition in respect of the whole nation rather than any particular spot.

I could bring up some spots myself. It is no political help to me to have these men sore. However, I think in the management and labour negotiations and agreements the labour board has some responsibility. Perhaps management and labour as well have not done as much as they should in taking the facts into consideration. The labour union heads should tell their own men what they can expect in labour negotiations as to what is likely to come and they could be prepared for it.

We all have sympathy with these other places which have had disappointments; but I think that in a state of emergency it is just as much their responsibility as that of the politicians, the government or management.

The next speaker is Mr. Robinson, then Mr. Chown and Mr. Broome.

Mr. ROBINSON: Mr. Chairman, on page 9 of the annual report it reads:

Improvements in passenger train schedules and service were also achieved through the substitution of railiners for conventional trains—

Then it goes on:

—in the Bruce peninsula in Ontario.

That must be a misprint. We do not have any passenger service in the Bruce peninsula. Is this railiner service proving satisfactory in the overall picture? Is it panning out so far as passenger revenue is concerned?

Mr. GORDON: Is it your statement that the wording in this report is incorrect?

Mr. ROBINSON: Just in that little item. It mentions the rail service in the Bruce peninsula. We do not have rail passenger service in the Bruce peninsula now. We did have but it was cut off. The Bruce peninsula does not start until you get up to Wiarton.

Mr. GORDON: There is a railiner service in the Bruce peninsula. You say there is not.

Mr. ROBINSON: There is in Bruce county but not in Bruce peninsula. Is this railiner service proving satisfactory over the country?

Mr. GORDON: Yes. Where we have put in railiner service we have achieved substantial economies as compared to conventional passenger service.

Mr. ROBINSON: I hope the suggestion I have will not be considered a local problem. Last summer when the schedule came out for our railiner service it was to leave Southampton in the morning and come back at night. The schedule

came out that way and later on it was changed and that railiner left Owen Sound in the morning and the one at Southampton went in and did not come out. The suggestion was it was not a very economical change because Owen Sound was serviced by C.P.R. railway in the morning. On this new service into Southampton if a person has business in the city it takes him three days to go there, do his business and come back. I would suggest in the new schedule that the two trains be switched over to get away from the overlapping in the two lines. I think probably there would be more revenue come in by making that switch.

Mr. GORDON: I will be glad to make note of your suggestion. All I know is that our officials have already made a very detailed examination of this schedule. I will make a note of your suggestion.

Mr. ROBINSON: Would it be out of order to ask why that change was made after the schedule came out last year?

Mr. GORDON: I could not answer that now. It is a detail in the matter of schedules and it would be done by the central region.

Mr. ROBINSON: I would be interested in what was behind the thinking of those who made the change?

Mr. GORDON: I will be glad to get in touch with you as soon as I have that information.

The CHAIRMAN: It is approaching 11 o'clock. I believe yesterday I mentioned we would meet from 9 until 11 this morning. It is your desire to carry on.

Mr. CHEVRIER: Mr. Chairman, I am afraid we could not carry on. We have to go to caucus. There are some important matters to be discussed in accordance with the order of business announced last night. Certainly, I cannot be here. I do not know how my colleagues feel.

The CHAIRMAN: Let us pause for a moment. When the meeting opened Mr. Fraser asked to speak.

Mr. HOWE: So did I.

The CHAIRMAN: You were not here as soon as he was. I think Mr. Fraser is expeditious in his questioning and we might proceed, starting with him.

Mr. FRASER: Mr. Gordon, last year and for many years I have been asking about reflectorizing the freight cars. Last year I think you said you were not much in favour of it.

Mr. GORDON: Yes sir.

Mr. FRASER: Why not reflectorize them? I have had a chance to read what you said last year and at that time you said that if one car was done that way and another not it would produce a hazard.

Mr. GORDON: This matter has been reexamined by The Board of Transport Commissioners, and there is an order by them outlining the basis on which the C.P.R. and ourselves have to reflectorize box cars in an orderly way. I have written the Board telling them I quite disagree with their order and shall continue to disagree with it, but we will naturally obey the order. If you do not have a copy of the order I will be glad to get one for you.

Mr. FRASER: Mr. Gordon, I disagree with you.

Mr. GORDON: I am glad we can disagree agreeably.

Mr. FRASER: I feel if one car was reflectorized and the next one was not, the one that was would give a warning to the driver of the car and the next one would come up, and it would warn him again.

Mr. GORDON: I do not think we want to get into a detailed argument on it. There is an order by The Board of Transport Commissioners. I think that in muddy weather the reflector would be obliterated in ten minutes.

Mr. FRASER: I know last year you said it would be washed out perhaps in a day, but I do not agree with that because now they have material which will keep clear in any kind of weather. I also have other questions.

Mr. DRYSDALE: I move we adjourn.

Mr. BROWNE (*Vancouver-Kingsway*): I second the motion.

The CHAIRMAN: Mr. Chown and Mr. Broome are next in order.

Mr. FRASER: May I finish my questions?

The CHAIRMAN: If you have time before 11 o'clock.

Mr. FRASER: You said last year that a board order had been issued in respect of reflectorizing of highway cars and signs whereby steps would be taken to provide a program. What has been done in regard to that?

Mr. GORDON: Whatever the Board order says has been done. This is a question of fact.

Mr. FRASER: Has it been done?

Mr. GORDON: Yes. We carried out the Board order; it is a court order.

Mr. FRASER: You have done it in respect of freight cars?

Mr. GORDON: Oh yes; we definitely have. The board has stipulated in a judgment the number of box cars which we are required to reflectorize every year. We have undertaken to carry it out. We have to do it: it is a matter of law. In regard to other matters affecting signs of any kind—whether it is highway signs or otherwise—if there is a Board order in existence we obey it.

Mr. FRASER: Has any consideration been given by the C.N.R. to spraying the undercarriage of freight cars and trains with aluminum paint?

Mr. GORDON: No, not to my knowledge.

Mr. FRASER: Some of the companies in the States have done that. It is very attractive at night, and you can see it when you are driving. It does help a great deal and, I think, from what I can make out, it has prevented a number of accidents.

The people here—and I know in my riding and in a number of ridings across Canada—I suppose, the general public feel the railways have not done anything in regard to trying to safeguard the people who are driving cars, in regard to this reflector business, and also keeping their freight cars rather clean so you can see them. The C.N.R. freight cars are so dirty in most cases, and they are a dull colour to begin with.

Mr. GORDON: I am trying hard to eliminate deficits on this railway; I am most reluctant to undertake anything other than those things which are absolutely necessary. As far as safety provisions are concerned, The Board of Transport Commissioners has complete jurisdiction. The Board's responsibility is to see that any safety precautions which it thinks are necessary are adopted by the railway. We carry out the Board's orders.

Mr. FRASER: But a life is more important than a dollar?

Mr. GORDON: That is hardly a fair statement to make to me. I do not think you can suggest that by not doing this or that I am disposing of human life callously.

Mr. FRASER: No, I did not mean it that way.

Mr. GORDON: These things you mention are a matter of opinion.

Mr. FRASER: Yes.

Mr. GORDON: You feel spraying the undercarriages is a safety factor.

Mr. FRASER: That does help.

Mr. GORDON: Well, you feel that way: we do not. As practical operators, we do not see it has any advantage, apart from a question of prestige or

making the thing look a little better, and so forth. We have done a good deal along that line, and in this particular instance we do not think it is worth the money.

Mr. FRASER: In regard to your freight cars, you have a picture on page 8 of the Canadian National Railways' annual report. On the left hand corner you have "Canadian National" in small letters.

The CHAIRMAN: Mr. Drysdale, do you have a motion?

Mr. DRYSDALE: I have a motion to adjourn.

Mr. FRASER: I have had people speak to me regarding the C.N.R., and they wonder why the company's name—in this case, "Canadian National"—should not be brought across the whole freight car, as is done in many cases, in the States. You have "Canadian National" in fairly small letters; and in the far corner you have the same thing.

Mr. DRYSDALE: It is painted.

Mr. FRASER: Yes, it is painted.

Mr. GORDON: It is simply a matter of choice in respect to what we think is the best way to handle this thing. If we are going to copy everything because it happened to be in the United States, we will never be finished.

Mr. FRASER: You want to advertise your railway?

Mr. GORDON: Yes, and I will speak to that after the adjournment. We have a very intensive program on that very thing.

Mr. FRASER: That is what I want to know.

The CHAIRMAN: We have not been making very rapid progress today, but we are meeting again at 3.30, or immediately after orders of the day, whichever comes first.

The motion to adjourn is in order?

The Committee took recess.

AFTERNOON SESSION

WEDNESDAY, March 30, 1960
3.30.

The CHAIRMAN: Gentlemen, you will please come to order. I promised to take you in the order that you decide. But before we start, I would like to say that I think we have had quite a lot of latitude. I think it was generally agreed by the committee that we should try to avoid details as much as possible, to get into the general principles involved in the management of the road, and to get to the report and what we are really here for, that is, to study the report of the president of the railroad and to pass the budget, and so on.

Therefore in the balance of time we are taking, I think we should try to avoid as much detail as we can. I think it has been generally accepted that we have had quite a while now in getting more or less trained to it. In fact, we did agree as a committee that we would follow that rule at the beginning. Perhaps it is my fault that we have had so much latitude, and have been dealing so much with details. So let your conscience be your guide from here on.

Mr. FRASER: Mr. Gordon was going to give me some information on his advertising, when we stopped at noon.

Mr. GORDON: Yes, I was going to make a comment. It arose out of your reference to the appearance of our boxcars and so on. I want to say that we are very well aware of the fact that, despite the very expensive modernization program which we have been through, and which we described in detail yesterday, despite the fact that we have modernized the railway with electronic hump yards, diesel shops, IBM machines, and all that sort of thing, there is still in the public mind a general impression that the railway business is a drab and dreary affair, that our colour schemes are rather poor, and that the shape of what might be called the corporate image in the public mind is still rooted in the past. In short, that it is a pretty old fashioned business.

Therefore, with that in mind, we have embarked on a definitive examination through our public relations department to see how we could improve that general impression. We are now looking at a number of suggestions which would include such things as a new style of company trade mark. That in itself raises the whole question of background;—In regard to a colour scheme for our equipment, our stationery, our booklets, our signs, and so on. We are conducting an examination to see if we can come up with a program which will produce a better impact on the public mind and which will dispose of this impression that the railroad industry is an old fashioned business which is not keeping itself up to date.

If we get the program going it will take a few years before we can really get to new designs, new colour schemes and so on. These things take a lot of time. But we do believe, on the basis of what we have seen already, that by intelligent up to date methods in this respect we can undertake a program, without too much cost, which will produce a better understanding on the part of the public generally.

Mr. FRASER: I have one other question. Could Mr. Gordon state how many level crossing were done away with by the Canadian National Railways last year, and how many they contemplate doing away with this year?

Mr. GORDON: No. That is a question of detail, and I would have to get my files from Montreal to answer it. I do not have them here.

Mr. FRASER: There have been whisperings around that the Canadian National Railways line between Peterborough and Lakefield is to be discontinued. Is that true or false?

The CHAIRMAN: That is pretty much a matter of detail, is it not?

Mr. FRASER: Yes, it is a matter of detail, but it is very important to the village of Lakefield and to the city of Peterborough.

Mr. GORDON: I do not have that information here. I did not come here prepared to answer questions of detail of that kind. I thought we were going to try to deal with questions of policy and of general approach as to how the railway is working. I am not familiar with that particular point, but I would be glad to get in touch with you if you will leave the matter with me.

Mr. FRASER: Very well, I shall do that. Now, on the matter of policy or of advancement of the railway, have you any idea of whether or not your company has been thinking of running a dayliner to take in the Toronto, Lindsay, and Peterborough line, where you have discontinued the present trains?

Mr. GORDON: There is no project before me in that connection, no.

Mr. BROOME: I have several points to bring up, but they will have something to do with detail. It is true that we have spent lot a of time on detail, but this detail has to do with the cost of operating the railroad, and it has to do with certain things with which I am very much concerned.

But before I launch into my main questioning I would like to ask Mr. Gordon if his attention has been drawn to an editorial in the *Financial Post* of August 8, 1959 which reads as follows:

Has Gordon forgotten?

In launching a huge program to redesign its "visual impact on the public" by giving everything from letterheads to boxcars a new look, the Canadian National Railways hired an American industrial designer saying they couldn't locate a Canadian with the proper qualifications.

And down below it goes on to say:

Certainly the CN is entitled to hire whomever it wants to hire. But the Canadian taxpayer is also entitled to wonder if the government-owned CN thought of asking the government-assisted National Industrial Design Council for the substantial list of well-experienced Canadian design firms.

The council was set up in 1948 to promote greater use of Canadian talent in Canadian design and has spent thousands on scholarships and exhibitions.

It was reported at the time that inspiration for establishing NIDC came from a senior member of the Foreign Exchange Control Board who was concerned about the large sums that went from Canada to the United States for royalties on designs. That senior member of the FECB was Donald Gordon.

That is pretty small, but it has a bearing on my main point which has to do with Canadian National labour. This has to do with Canadian manufacturing, and I would like to refer to an editorial in the *Financial Post* of last November which reads as follows:

"Watch for Strife in Microwave Job."

I am quite sure that Mr. Gordon is familiar with this, where it points out that the Canadian National Telegraphs have received a contract and order to build a microwave system to cost more than \$25 million, to be amortized over 15 years.

This article is concerned with the Canadian National Telegraphs, who are the prime people in this, and who have been spending a lot of time in taking a close look at potential subcontractors in West Germany and Japan, because they feel they can get their equipment a lot cheaper from offshore than from onshore sources; and it is in that particular regard that I want to ask some specific questions. In that regard, I would like to know how the Canadian National Telegraphs obtained this contract, and after they obtained this contract how they appointed RCA Victor as their turn-key contractor, and then how did RCA Victor appoint the McNamara-Hyslop Company as their major contractor. I think I gave notice to both Mr. Vaughan and Mr. Gordon that I would like to ask these questions and have some information.

Mr. GORDON: Well, Mr. Chairman, I would like a little guidance on procedure. Mr. Broome knows the answers to the questions he is asking. He has been to our offices again and again, he is thoroughly familiar with everything involved. Now, is he asking the questions for information or is he asking the questions in order to lead up to a needling of me about Canadian National Railways management?

Mr. BROOME: If you want to bring up needling, it is not needling at all; I have not the answer.

Mr. GORDON: Perhaps you would let me know the specific question.

Mr. BROOME: I do not know how you chose between RCA and Standard Tel and Northern Electric and other people who bid on this job.

Mr. GORDON: I personally told you that in my office.

Mr. BROOME: You did not give me that information.

Mr. GORDON: I beg your pardon, I specifically told you the tender was awarded to the low bidder, and also that it was published as a matter of information in the press.

Mr. BROOME: RCA Victor were the low bidder?

Mr. GORDON: That is right, and it was so stated in the press, and was so stated to you in my office.

Mr. CHAIRMAN: Again we come back to the matter of procedure. I can see we will be here all summer if we are going into the management questions in that detail. We have had a lot of detail and it has probably been my fault in letting it go. There are other members of the committee—Mr. Pascoe, Mr. Kennedy and others who have not said a word; but we all agreed we would proceed on the general principles of the management policies of the company, and avoid detail. That is why we asked for and approved of the graph system to lay it out, and those who watched carefully at the sittings I know have learned a lot about it by what has been presented. We are trying to avoid all the details.

It is true we have allowed a lot of latitude and I say again it probably is my fault that we have. It is a wonder some of these people who have been quiet have not arisen on a point of order and chastised me for it. I think if we are going to get into points of detail and challenge contracts like that, this meeting might run a matter of weeks, if every member is going to bring up that much detail.

Mr. BROOME: All right, let us get off that particular line and I will ask one specific question on which undoubtedly the president has the information and now I make one assumption, in the amount of tender. Why is it your agents, RCA Victor, chose to give contracts over \$1 million to a Norwegian firm to build heavy tramways when competent firms in Vancouver bid \$100,000 to \$125,000 below the price which was accepted? I presume their design was satisfactory to satisfy the requirements of the job, because they were acceptable enough to receive a \$20,000 design and engineering fee to go ahead with, and they were tossed out on their ear?

Mr. GORDON: These are not questions, Mr. Chairman. A lot of statements are being made but no questions.

Mr. BROOME: I am asking why.

Mr. GORDON: But you are making a lot of statements.

Mr. BROOME: I have a lot more here.

Mr. GORDON: But you are making statements that I am not admitting as facts at all. If you will give me a moment to give you one of the answers to at least one of your questions we may get on. You know perfectly well that every detail of what you have asked has been gone over with you ad nauseum—

Mr. BROOME: I have no knowledge—

Mr. GORDON: Let me continue—ad nauseum, and days were spent with you by our officials here, there and other places. I have never known a contract where more effort has been made to satisfy a member of parliament than this particular one you are referring to.

The facts are these: The Canadian National Telegraphs obtained this contract from the government authorities in Washington on the basis of an invitation to tender on an installation of a communications system. We were entrusted with the job after a period of keen competition with American suppliers, and others who had American affiliations. We in turn called for tenders for the installation of this particular communication system. These invitations were issued to RCA Victor Company Limited of Montreal, to the Standard Telephone and Cable Manufacturing Company (Canada) Limited, to the Northern Electric Company Limited and to the Canadian Marconi Company Limited. In the

result, the Canadian Marconi Company did not submit a bid. The other three did. In consequence of their bid, the RCA Victor was picked as the company with the low bid, all things considered. They are our prime contractor and they are perfectly entitled to employ any subcontractor they wish, so long as they meet the performance specifications that we have stipulated for the particular job.

The system will be constructed and owned by the Canadian National Railways and there is a guaranteed revenue from the United States government, over a period of fifteen years, of an amount sufficient to fully amortize the system, cover our operating expenses and, as well, provide a margin of profit.

Whether or not RCA Victor prefer to select a subcontractor here, there or anywhere in the world is entirely their own business, and that is what they have been doing, as you very well know.

Mr. BROOME: But RCA Victor are on a cost-plus contract.

Mr. GORDON: No, they are not.

Mr. BROOME: They are on a fixed ceiling basis.

Mr. GORDON: If you know, why do you ask me the question?

Mr. BROOME: Because I want to point out—we are talking about dollars and cents here, and those dollars and cents are being provided by the Canadian people and are being provided to the Canadian National Railways to build this thing, are they not?

Mr. GORDON: No, they are not. You made that statement before. This project is being financed by a borrowing of money by the Canadian National Railways. The capital sum invested, as we have told you, will be fully amortized and written off. There will not be one dollar in consequence taken out of the pockets of the Canadian people.

Mr. BROOME: Nevertheless, the Canadian people are providing the \$25 million that is required as it is amortized over fifteen years.

Mr. GORDON: The borrowing has been done in Canada in approved form with bonds which bear interest in the normal way. It is a good investment by the people of Canada.

Mr. BROOME: The contract of RCA Victor is a ceiling price plus management fee; so with this feature a certain sum of money, or carrier equipment that comes into it too, is, say, \$1 million, and the high bid is \$900,000 and the low bid is \$600,000. It does not matter to RCA Victor which one they take, because they are below that ceiling price on the basis of the cost-plus contract.

Mr. GORDON: That is entirely wrong. That is your interpretation, which I deny.

Mr. BROOME: Then you had better have your vice-president in charge of purchasing get straight on it because that is what I got from him.

Mr. GORDON: If you have all this information, why are you asking me about it?

Mr. BROOME: You have a board of directors, but it is obviously an honorary board. You have said earlier that they meet once a month but know nothing about railroading. In free enterprise the management is responsible to the shareholders and the board of directors.

Mr. GORDON: What has that got to do with what we are talking about?

Mr. BROOME: We are sitting here as a board of directors or shareholders asking questions on the operation of the railway, and that is what I am doing.

I will go on to something of the same nature in regard to the Yukon Telephone Company—and I will come back to the other. According to the Yukon Telephone Company the Canadian National Railways paid \$625,000 for that. That was in your last year's financial statement.

Mr. GORDON: Yes.

Mr. BROOME: I am informed by people who know the telephone business that there will be \$500,000 more to bring that up to a working system. The British Columbia Telephone offered \$200,000 for that property, plus \$50,000—

Mr. GORDON: For whom are you acting now, Mr. Broome?

Mr. BROOME: I am acting for the people who have to find the money to keep the C.N.R. going.

Mr. GORDON: If you will divulge the names of your clients perhaps the committee can form some view.

Mr. BROOME: Mr. Chairman, on a question of order, I demand that that be retracted. I am not a lawyer. I spent my own money going around to find all these things out. There are a lot of other people in the same way. You sit down without anybody to answer to, except for an hour or two, or one or two days that you attend here, and then you want to tell me—you say that I have a private axe to grind, that I have a financial interest or that I am a bit radical.

Mr. GORDON: When did I say that?

Mr. BROOME: Who are my clients. A client is somebody who pays you.

Mr. GORDON: Is it?

Mr. BROOME: That is my interpretation of the word "client". My clients are 17 million Canadians who have to fork up \$40 million this year and another estimated \$24 million next. I am asking, was it prudent to do this or that.

Mr. GORDON: You ask the question and I will answer it, instead of making a speech.

Mr. BROOME: I am not making a speech.

The CHAIRMAN: You are answering it yourself. You are laying a charge against the management rather than asking questions.

Mr. DRYSDALE: Let us hear it, Mr. Chairman.

Mr. FISHER: On a point of privilege, Mr. Chairman, I have no brief for what he has said, but I do feel Mr. Gordon's remark about clients was a rather unfair one, and he could perhaps make the charge that I have another client in some of the people in the area. I do not think this applies to Mr. Broome and I do not think it applies to me or the other members. I think that was taking a rather unfair advantage of the respect we accord Mr. Gordon in the committee.

Mr. GORDON: Mr. Fisher, I had no intention of making a charge, and if it is so taken I apologize and completely withdraw it. I was trying to ascertain from what point of view Mr. Broome was speaking, and if he was speaking from some interest I thought he should disclose it to the committee. I accept his word.

Mr. BROOME: What I am trying to do is to point out where I think there have been mistakes in the operation of Canadian National Telegraphs.

Mr. GORDON: You have asked me whether or not the purchase of the Yukon Telephone Company was a profitable purchase, and the answer is yes.

Mr. BROOME: You will make a profit on the money you invested?

Mr. GORDON: That is the way I have it. We intend to make a profit.

Mr. BROOME: Fine. My problem only is that the Canadian National Railways spend money, and whether they are going to get a return from that and going to be in a better financial position by having spent that money.

Mr. GORDON: I have said many times, that I recognize there is no substitute for the discipline of the profit and loss account.

Mr. BROOME: Coming back to the carrier equipment which was bought in Germany, as I understand—well, it is unfair to ask you questions about that, because I should never have brought that up, but there are Canadian manufacturers of that equipment. Western Electric in Vancouver and Northern Electric in Montreal; were they invited to bid? The reason I am asking this is because I know of manufacturers on the west coast who did their damndest to try to bid on equipment in the microwave contract and couldn't do anything.

Mr. GORDON: You are not talking now of companies having business with the Canadian National Railways; you are talking about companies who do business with RCA Victor. If you have questions in that respect you should be talking to RCA.

Mr. BROOME: But the Canadian National Railways do exercise an over-all responsibility; they are the agents.

Mr. GORDON: Canadian National Telegraphs is merely there for the purpose of defining what they want in the way of performance. Our contract with the United States government specifically requires a fidelity of performance in regard to this communication system. It also has a date for completion, which is very important. On those two things the Canadian National Telegraphs, by reason of our contract with RCA, are entitled to express their judgment as to whether the work can be done within the time limit, and also whether the performance will be such as is specified; and that is all. The RCA are completely free to do what they please. They have given us a contract which, as you know, is termed as a turn-key contract, or in other words, a delivered communication system within the date and up to the standards which we have stipulated.

While I am speaking I think I should read to the other members of the committee this item in the paper. The RCA Company made this statement when this contract was awarded:

“The award of the contract to a Canadian company over competition from foreign interests was regarded as a tribute to the capabilities of this nation's electronics industry”. The president of the RCA Victor Company Limited of Montreal, Mr. J. D. Houlding, said, “RCA Victor is proud to have been assigned this major project within the field of communications. It gives us an opportunity of making fuller use of our Canadian research engineering and production facilities and a potential enlargement of our activities in foreign markets”.

In respect of those press items that you mentioned, if you had been fair you would have referred to other press items in which we were congratulated for having placed the contract with Canadian interests.

Mr. BROOME: If I had seen the other press items I would have referred to them. I did not see them.

Mr. GORDON: I can send them to you.

Mr. BROOME: I have not received a reply to this one major point where a Canadian company was low bidder, but you have said it was RCA's business.

Mr. GORDON: Yes, sir.

Mr. BROOME: I even took the trouble to go up to Dawson Creek and Fort Simpson, and I found Canadian National Telegraphs up there working with Gracey-McCallum, and so on. The Canadian National Telegraphs are not divorced from this in the way you say.

Mr. GORDON: Of course the Canadian National Telegraphs have work to do, because there are other things having to do with the operation of this system. They have to go over the system and be ready to operate it. The preparing for maintenance and proper operational facilities can best be handled

while the communication system is being built. Surely, you are not criticizing me for the fact that the officers of the Canadian National are exercising a prudent supervision of a contract of this size.

Mr. BROOME: I am trying to get something consistent. You say in one breath they are the turn-key contractor and they turn over the key to you when the job is finished, and you have nothing to do with that because it is their business; but now you say that you have to work in with the details and I am saying those two concepts are inimical one to the other.

Mr. GORDON: I cannot see that there is anything inconsistent at all. We know that by July 1961 our organization is expected to be ready and able to operate this system. Mind you, in addition to this particular part of the system there is the other branch of it, to which I have already referred. That is to be worked in with the Alberta government, which is a big job of organization and management. If our men are up there looking over the ground to see that everything is all right, I am very happy, because that is what they should be doing.

The CHAIRMAN: Any more questions?

Mr. BROOME: Yes I have, Mr. Chairman. I still want to have the answer to the question. I did not come to object to RCA and I agree that, although they are 100 per cent American, they are a fine, good company.

The CHAIRMAN: On a point of order, Mr. Broome, I think it is obvious to the committee that so far as RCA's execution of their contract is concerned, that is most irrelevant to this committee's work.

Mr. BROOME: Well, it is not, Mr. Chairman.

The CHAIRMAN: They have received their contract from the Canadian National Railways and they are carrying it out. Surely, do you want to call RCA here, or can you not go and see RCA?

Mr. BROOME: I have.

The CHAIRMAN: You say you have; we are not examining RCA Victor, but Canadian National Railways.

Mr. BROOME: The Canadian National Railways has to pass upon the subcontractors that are appointed by RCA Victor.

Mr. GORDON: That is not true I have said that is not so a dozen times. I have told you in every interview we had what the circumstances are; that RCA are solely responsible for deciding upon their own subcontractors. All we have to do is to assure ourselves that the performance will be forthcoming out of the contract.

Mr. BROOME: Well, I have been told that you approved the payments, that you approved the contracts, that it is not quite that arm's length relationship. What I would like to say and perhaps...

Mr. GORDON: What is the insinuation now? I withdrew an insinuation and now you are doing the same thing. What do you mean by saying there is not an arm's length relationship?

Mr. BROOME: That you have given them a contract and have nothing to do with it until they finish the job.

Mr. GORDON: I did not say that at all. What I said was that RCA are completely responsible for deciding on their own subcontractors. They are naturally in touch with us on this highly technical job in order to satisfy us that performance will be in accordance with our specifications and, moreover, that the maintenance costs and things of that kind will be reasonable in regard to this job. I have told you that again and again. If you do not believe me I

wish you would say so and then I will stop talking. I have told you again and again that RCA are completely and solely responsible for the selection of their own subcontractors.

Mr. BROOME: Mr. Chairman, Mr. Gordon is honest and sincere and I believe every word he says is exactly what he thinks to be true, and that he would not say anything that was not...

The CHAIRMAN: Then, if that is right, from a point of order then it is irrelevant to discuss RCA Victor's subcontractors, which does not belong to this committee's duties at all, if you believe what Mr. Gordon said.

Mr. DRYSDALE: Let him finish.

The CHAIRMAN: We want to stay in order, but we would be here all summer if you are not going to follow what this committee decided to follow.

Mr. DRYSDALE: You keep interrupting him before he finishes the statement.

The CHAIRMAN: Well, he has finished it three times since I mentioned about RCA.

Mr. BROOME: If it is a question of appealing to the committee to make a statement, if you want to rule me out of order I will appeal it. This is what I want to say: the Vancouver contractors were, as far as I can consider, a considerable sum of money below the Norwegian contractors, in the neighbourhood of \$100,000 to \$120,000...

Mr. GORDON: To whom?

Mr. BROOME: May I finish my statement?

Mr. GORDON: You are talking about Canadian National Railways, I trust. Keep your points relevant to the Canadian National Railways.

Mr. BROOME: My point is this: the C.N.R. is providing the money. If \$100,000 is wasted, then that certainly should be of some concern to the C.N.R. That is my point on that, as far as I am concerned, because I have asked the question as to prices and have not got an answer.

Mr. GORDON: You keep putting your own interpretations on something which is not the case at all. You say \$100,000 is wasted because you have some information which, I take from what you say, is to the effect that somebody else would have bid \$100,000 less for a particular piece of work.

It does not follow that that is waste. The other person bidding for the work is producing a quality job, the type of job which satisfies R.C.A. Victor as being much better in terms of this particular contract—and that has a definite bearing on it. I do not know what judgment R.C.A. Victor used. That is for them to decide, as I keep on saying.

Mr. BROOME: If I could finish my statement on this—between the chairman and Mr. Gordon I have a hell of a time trying to get through with something.

The CHAIRMAN: Just a minute; I am not going to take that from you, Mr. Broome—that I am not fair to you. We have made the decision that we are trying to avoid too much detail. We have given all sorts of latitude to detail; but something that is not relevant to the committee's function at all should not be taking up the time of the committee.

You say that you do believe Mr. Gordon; you say that you believe every word he has said.

Mr. BROOME: Right.

The CHAIRMAN: You have withdrawn any other inference.

Mr. BROOME: I never made any other inference—I did not.

The CHAIRMAN: On the other hand, so far as R.C.A. Victor, is concerned, they are paid by the C.N.R. for their contract, and they have a subcontract. Surely it is not the function of this committee to follow on as to what they are doing with a subcontract.

Mr. BROOME: You are saying that it is not the function of the committee that that line cost \$5 million more than it should—and we have to supply the money? You say that has nothing to do with this committee?

The CHAIRMAN: I did not say any such thing.

Mr. BROOME: That is what I am talking about. I am talking about the costs of the contract, and I am saying that a Canadian manufacturer was a considerable sum of money lower and was given a letter of intent to go ahead.

The first sentence of that letter reads:

In order that you may commence work without further delay and to maintain the schedules as outlined in your proposal, this letter will serve as your authority to proceed immediately with such preparatory work, preliminary engineering and site work—

That certainly would not have been issued.

Mr. GORDON: That letter was issued to every other subcontractor. You know that. And I had better not say why you are doing it, because I would be out of order. Really, all that letter is—and you well know it—is an intimation by R.C.A. Victor that if you wish to get yourself prepared to make a bid on this particular piece of work, you may do so, because you are acceptable as the sort of person to tender on the job.

That does not in any way suggest they are going to get the contract. When the tender was made, R.C.A. Victor, on their own responsibility, decided to award that particular part of the contract to another subcontractor. There is still more work to be done, and maybe the contractor you are interested in may have an opportunity—but I do not know any better way to foul it up than the way you are proceeding. I have reference to R.C.A. Victor's feelings.

Mr. BROOME: I take that as a threat.

Mr. GORDON: R.C.A. Victor, I would think—

Mr. BROOME: Is that a threat, or not?

Mr. GORDON: No.

Mr. BROOME: You say my actions prejudice the chances of these firms for further work, is that what you said?

Mr. GORDON: Yes, I did. I think that, as a matter of business common sense, you have made so much trouble for R.C.A. Victor in this thing that I would think—I do not know of my own knowledge—that they would be a bit fed up whenever they see the name of whoever it is you are talking about, coming up again.

Mr. BROOME: May I finish off what I wanted to say, and it is this: I did see R.C.A. Victor and they told me the Norwegian proposal was a more elegant one.

Mr. GORDON: It was what?

Mr. BROOME: A more elegant one—that was the word.

Mr. GORDON: A better type.

Mr. BROOME: \$125,000 worth of elegance—because they agreed to me—at least, this is the interpretation I took—that the Canadian manufacturer fulfilled all requirements, but it was not as elegant as the other.

Is it the function of the C.N.R. to allow \$125,000 to be spent for elegance?

Mr. GORDON: I do not think I can say any more, Mr. Chairman. This just goes 'round and 'round: we are saying the same things over and over again.

All I have said is that this subcontractor proposed a solution for a particular type of problem. The R.C.A. Victor decided the other solution, as they said, was a more elegant one, in Mr. Broome's own words: it was the more elegant solution. What does it mean? It means many things. It means, among other things, that the particular solution proposed by the other competitor will probably reduce maintenance charges, will give much better performance, will give the sort of thing which is an integral part of the contract—that it be of a standard such as to incur maintenance costs that will satisfy our requirements.

If R.C.A. Victor decide they can do it better with this fellow than with that fellow, that is their business.

The CHAIRMAN: Have you any other questions, Mr. Broome?

Mr. BROOME: No.

Mr. ROBINSON: I have just one question I would like to ask the witness. In the Canadian contract, in connection with C.N.T., where there is going to be subcontracting done—

Mr. GORDON: I am sorry, I did not hear the last few words.

Mr. ROBINSON: You are giving contracts from the company where there is going to be subcontracting done. Is it the practice, or is it required that Canadians be given a chance, providing the whole thing is equal?

Mr. GORDON: No.

Mr. CHOWN: Mr. Chairman, I wonder if Mr. Gordon could give the committee, very briefly, the figures on accidents for the year 1959. I want just a simple figure giving the total number of accidents, and a simple figure giving the total cost of those accidents. Also, perhaps Mr. Gordon could make a very brief comment on this matter.

I draw to the attention of the committee that I do not feel that we would want the president to expand on this, because it was a year which did not go too happily in this regard, and this sort of thing can turn up in cycles: and I am quite aware that it can. So I wanted to make the question and the answer as simple as possible.

Mr. GORDON: If you will permit me, I will turn the question over to Mr. Dingle, who is our vice president, operations—and may I say, as a passing comment, that accidents are a very painful subject to us.

Mr. CHOWN: I understand that.

Mr. GORDON: And, naturally, we view them with the greatest possible concern. Mr. Dingle has some information, I think, which will answer your inquiry.

Mr. DINGLE: I will limit my remarks, Mr. Chown, if I may, to the record as submitted to D.B.S., and I will also limit it to collisions and derailments. Would that suit your purpose?

Mr. CHOWN: Yes.

Mr. DINGLE: In 1958, as reported to D.B.S., we had 10 collisions; in 1959 we had 12. On derailments, in 1958—as reported to D.B.S.—we had 10; and in 1959 we had 7.

As to cost; I cannot give you specific figures on those, but if you will leave it with me, I am sure we would work it out and submit it later.

Mr. CHOWN: Well, a rough figure was all I was interested in.

Mr. DINGLE: As Mr. Gordon has said, it is a painful subject to us. We had a bad year in 1959 in regard to accidents, which is the year I understand you wish placed on the record.

We had a lot of assistance from our labour organizations. Indeed, there are men in this room who came to my office on behalf of labour and asked what

they could do to assist in the prevention of accidents. Our over-all figure is \$7 million for 1959, but that takes in everything and goes beyond the detail I have given you here.

Mr. CHOWN: Would you explain what you meant by the expression "as reported to D.B.S."?

Mr. DINGLE: Yes. D.B.S. accidents, mean the collisions and derailments, which are based on a minimum of \$750 damage to railway property, as reported to the Dominion Bureau of Statistics, provided there are personal injuries involved. If there is personal injury and the amount is less than \$750 it is reported to the D.B.S. not as a collision or derailment, but as an accident under "other causes". It is in line with their regulations.

Mr. CHOWN: Could we have that figure?

Mr. GORDON: The figure which you have reported, Mr. Dingle, is the total figure covering all claims attributable to accidents. It covers injuries to persons, loss and damage to freight, damage to property of others, clearing of wrecks, repairs to track and structure, repairs to rolling stock and the cost of rolling stock destroyed, and everything of that sort. What Mr. Dingle means by the D.B.S. reference is a definition for the purpose of statistical information as to what constitutes an accident. If we scrape a car and knock off some paint it could be considered as an accident, but it is petty things that are not so treated. Anything over \$750 damage, with personal injury, is an accident.

Mr. CHOWN: That is the definition I wanted.

Could we move on, for a moment, to pensions? Would it be possible for you to file, as an appendix to the record, a statement of the investment portfolio and the total amount in the C.N.R. pensions fund?

Mr. GORDON: I do not think we should be asked to give the composition of our investments. That would be market information which, I think would be considerably sought after. Do you mean our actual portfolio?

Mr. CHOWN: Yes.

Mr. GORDON: I do not think any pension fund would consider it wise to do that. I can tell you generally the type of investment.

Mr. CHOWN: If you could break it down into stocks, bonds, and so on, and give us the total amount in the pension fund—

The CHAIRMAN: The total amount of the pension fund?

Mr. CHOWN: He is going to break it down into broad categories, Mr. Chairman.

Mr. GORDON: You will find that there is a reference to it on page 28 of the annual report.

Mr. TOOLE: Reserves for the pension fund, in the annual report, are \$229.8 million, and that refers to the people who are actually on pension. In addition to that, in the pension trust fund, for people currently in service, there is \$108 million.

In one other fund, for the people who are in their first ten years of service, there is another \$11 million. That gives you the total.

Mr. GORDON: Call it \$350 million, in round figures. That is near enough for your purpose.

Mr. CHOWN: That includes the reserve set aside annually for employees presently on pension?

Mr. GORDON: Yes. The investment portfolio, generally speaking, is confined to Canada government bonds, Canada guaranteed bonds, namely the C.N.R.'S own bonds, and a sprinkling of provincial bonds. We have a planned system of investment where we will invest in mutual funds up to a maximum of 10 per cent. We have not reached that 10 per cent figure yet, but that is part of our policy.

Mr. CHOWN: That is a good policy.

Mr. GORDON: We might revise it from time to time, but at the moment that is where it stands.

Mr. CHOWN: Continuing for a moment on that subject, Mr. Chairman, if I might—and I will be brief—I think the railway should be congratulated on the changes that they made in the pension set-up for C.N.R. employees commencing January 1, 1959. As a result of that, the formula has changed—if I am correct—for those who are still in service and had been in service during the very difficult years, from a day-for-a-day basis to a month-for-a-day basis. Putting it in that language, I think it would be a fairly accurate statement, would it not Mr. Gordon?

Mr. GORDON: Yes, it was one of a number of changes that were made, but that had to do with allowable service.

Mr. CHOWN: As a result of this, a great many of your employees recovered from one month to six years of service, for pension purposes, lost during the thirties, and they have expressed to me and other members, I am sure, their gratitude for the change you made at that time.

Mr. GORDON: I am very glad to hear that.

Mr. CHOWN: They are now seeking and are anxious for—whether it is a bargaining process, or not—the railway to take under consideration their hope they can make this pension 1½ per cent across the board. Is this something negotiated around the table, or is it something that is fundamentally a decision of management?

Mr. GORDON: It is fundamentally a decision of management: the actual pension benefits have not ever been a matter for negotiations. We do have representations made to the Company's pension board—and we have labour representation on that board—which deals with the actual administration of the pension fund. We take advice from these men in respect to various proposals we make from time to time.

One of the big things that has happened in connection with our pension scheme, apart from improved benefits—one of which you have mentioned—is in connection with the fact that a very large number of employees had not taken up the pension rights which were available to them. I would like to find this, if you would give me a moment.

One of the things we found was that before we started this 1959 revision, notwithstanding the opportunity made available to employees in the 1952 revision to obtain greatly improved benefits at time of retirement by electing to contribute to the fund, less than half of our employees did so. It would therefore only qualify them for the relatively small non-contributory service pension, or basic pension, when they reached the retirement age. That is what a lot of comment is being made about—of people being out on pension on the small amount of \$25 to \$35 a month. They are people who neglected to take up the opportunity to become contributors to the fund.

In the light of that experience particularly, as only half of the employees had taken advantage of it, the board of directors and management decided to make a thorough review of it, and this led to further revision of the plan which became effective January 1, 1959 in which we stipulated that as from that date all employees who were not contributing under part 2 were given an opportunity to elect, prior to December, 1959, to transfer to the 1959 plan. Secondly, new employees would be under the new plan on a compulsory basis.

That extra option, so as to speak, which we gave to the employees, was very actively pursued by management, in a campaign to inform employees what their rights were.

From one point of view, that was disadvantageous to us—from a cost point of view—because every employee who neglected to take up his rights meant that our costs were less. In other words, we would not have to make contributions on his behalf. We embarked on a campaign to bring to the individual attention of every employee—by the best method we knew how—the actual benefits and privileges he was giving up by not becoming a contributor. In that campaign we had very forthright support and assistance from the union representatives. As a consequence of that campaign, over 31,000 came into the revised plan. This, together with the compulsory feature which I mentioned, means now that as at January 1, 1960, there are 74,201 employees in the C.N.R. 1959 plan as compared with 36,015 in December, 1958; in other words, an increase from 34 per cent to 72 per cent. We are very happy about that generally. And that, combined with other plans, means that 81 per cent of our employees are now in one form or another under a contributory pension scheme.

If I might finish with this: to give you an indication of the improvement in benefits which, after all, are brought by the expenditure of money,—the annual pension payment that the company is making for pension fund purposes was \$25.2 million higher in 1959 than in 1949. Or, to put it another way, you will find in our 1959 report that our pension costs were \$36,500,000 compared with \$11,300,000 in 1949. That gives you some idea of the measure of the benefit improvements that have been given to the employees.

Mr. CHOWN: If a man elected to come in under the 1952 scheme, it would involve him in quite a lot of retroactive contribution in order to bring his own personal pension account into an actuarial balance.

Mr. GORDON: He had the option to do so, but did not have to take it up. We would give him the actuarial amount that he was in arrears, and we would work out a system of part payment, so that if he reached pension age or died before he completed it then he would be entitled to a pro rata pension based on what his payments had been.

Mr. CHOWN: Have you under consideration the possibility and the economics of putting this pension on a 1½ per cent basis across the board, or have so many years of service—1¼, 1½, and so on?

Mr. GORDON: You are thinking about the calculation of one per cent for so many years of service—1¼, 1½, and so on?

Mr. CHOWN: Yes.

Mr. GORDON: I have not got those figures, but it would be substantial.

Mr. CHOWN: I want to refer to an article in an Ottawa newspaper where the Quebec North Shore and Labrador Railway set out their pension plan. I would like to put it on the record, and leave it with you for consideration during the coming year.

It reads as follows:

All employees who have reached the age of 21 and have two years of continuous service are eligible to join the plan.

The basic employee contribution is 4 per cent of earning. However, provision is made for additional employee contributions at time of participation depending on age. The company contributes the balance of the cost of providing the benefits.

Normal retirement under the plan is at age 65 with both early and late retirement provisions available according to the usual stipulations.

Annual pension on retirement amounts to 1½ per cent of average annual earnings times the number of years of participation in the plan. Several options are available as to how the pension will be taken such as

joint and survival pension, integration with old age pension, etc, if the employee should terminate his employment with the company, his contributions are refunded with interest at 3 per cent.

That is the end of quote.

Mr. GORDON: I have not been able to grasp all that sufficiently to make a comparison with our pension fund. However, I can say in a general way that when we made the amendment in 1952, which was a major amendment, and then the further refinement in 1959, we did make a comparison with other pension funds and I can say that as a commercial organization, carrying on business in a competitive field, we do compare quite favourably with other funds.

Now, you cannot compare a pension fund unless you can take it point by point. Some of the things may be more beneficial in our case, or it may be otherwise. However, I would like to say that our pension benefits compare very favourably with the C.P.R. or any of the American railroads, and most of the large industries.

I will be happy to look at that, Mr. Chown.

Mr. CHOWN: I wish you would; and I again emphasize how grateful the employees of the C.N.R. are for the changes that were made, with effect from January 1, 1959.

The CHAIRMAN: Have you a question, Mr. Carter?

Mr. CARTER: I think you indicated yesterday, when you were looking at your capital investment chart, that you had now just about reached the end in the rehabilitation program, and that from now on your capital investment would be levelling off. I wonder if that would improve our chances of a standard gauge railway for the province of Newfoundland?

Mr. GORDON: No, I would not think so. There is no project at all under consideration for making a standard gauge railway in Newfoundland. The last time I looked at it, we took a stab—perhaps I should say an educated guess—as to what the cost would be, and it would be a minimum of approximately \$150 million to do so. We cannot see the economical advantage accruing from it.

Mr. CARTER: Well, as you know, when Newfoundland came into confederation ten years ago it was estimated at \$100 million, and now it has gone up to \$150 million in another ten years it might easily be \$200 million.

Mr. GORDON: Yes.

Mr. CARTER: Do you not think the time will come when Newfoundland will have to have a standard gauge railway? When our present railway was built we had 80,000 people now we have nearly half a million people. Do you think the needs of the province can be served indefinitely by a narrow gauge railway?

Mr. GORDON: Yes, as far ahead as I can see. I am going to retire some time but, as far ahead as I can see, I think the requirements will be adequately served by the narrow gauge. I should say that we have had no complaints from shippers in Newfoundland about inadequacy of service by reason of the narrow gauge.

Mr. CARTER: You have not received any complaints from shippers?

Mr. GORDON: No! What I mean is this: any complaints we get about the service in Newfoundland would not arise because of the absence of a standard gauge, or would be cured by a standard gauge. The service we give now is of a character that the narrow gauge provides satisfaction, and any form of complaint that we have received does not arise by reason of the fact that it is narrow gauge.

Mr. CARTER: Do you not think that from the standpoint of equality of transportation services between one province and another that the people of Newfoundland should have that?

Mr. GORDON: I am glad you asked that question because it is an important point. The service which we provide in Newfoundland is just as good under the narrow gauge as would obtain from a standard gauge railway.

Mr. CARTER: Well, we cannot buy in carload lots even up to North Sydney. A purchaser in North Sydney can have a carload of bananas shipped from Florida to his door, but the Newfoundland buyer cannot do that.

Mr. GORDON: Have you not a bit of ocean in between?

Mr. CARTER: That is not insurmountable. But you cannot maintain that you are giving the same service to the Newfoundland shipper or importer as to the rest of the maritimes.

Mr. GORDON: Your point would mean—if you are saying Newfoundland is entitled to the delivery of a boxcar in Newfoundland—that a car ferry would be included which would be an important cost, and would add considerably to operations. But from the standpoint of railway services as such in Newfoundland, then I would claim our service from a railway point of view is just as good as on the mainland.

Mr. CARTER: Between points in Newfoundland?

Mr. GORDON: Yes.

Mr. CARTER: We buy \$250 million worth of goods from upper Canada.

An hon. MEMBER: From upper Canada?

Mr. CARTER: Mostly upper Canada—Ontario and Quebec. We buy \$250 million worth of goods.

Mr. GORDON: I would say, Mr. Carter, that this comes right down to a question of economics, and whether changing from a narrow gauge to a standard gauge would be economic in terms of benefit. The railway itself would be a matter of \$150 million. That earlier figure of \$100 million was a stab in the dark. In addition to the \$150 million for the railway itself, it would mean a complete new set of equipment, locomotives, cars, ferries and everything else.

Mr. CARTER: That is what concerns us. You are improving the services there and building up a capital investment in new equipment including tracks and buying new diesels, but they are all narrow gauge and it looks as if this is committing us forever to narrow gauge.

Mr. GORDON: I now know that in Newfoundland there are reasonable men, and as a reasonable man I think you will agree that the service in Newfoundland has been infinitely improved since the C.N.R. took over.

Mr. CARTER: I would say there has been an improvement in the services as compared to what they were when you took over. I think that is a fair statement.

Mr. GORDON: My point is that the relative improvement in Newfoundland has been even greater than in most parts of Canada, starting from what you did have, and have now.

Mr. CARTER: I do not think the system we had when you took over was properly designed at all.

Mr. GORDON: If you will find me \$150 million I will be glad to build the railroad!

Mr. CARTER: It would take about ten years to develop that, so why not give it a second thought.

Mr. GORDON: You would also have to include interest on that period of ten years.

Mr. CARTER: We have heard there were some ships being built for the coastal service. Can you say what stage has been reached in their construction and when they will go into service?

Mr. GORDON: As you know, the ships are being built by the federal government. I have not been in touch with it recently.

Mr. CARTER: Will you give me that information later?

Mr. GORDON: Yes.

Mr. FISHER: Mr. Chairman, I sent to Mr. Gordon nine questions so that he would have an opportunity to prepare answers if he felt they were answerable. Already he has covered at least two of them. I wonder if I could put those questions to him now?

Mr. GORDON: Yes. I thought most of them had been answered in a general way.

Mr. FISHER: There was the question about the pooling and co-operative arrangements with the C.P.R. I would like to know the chief stumbling block to greater development along those lines. There is some indication that there were meetings last year at which development topics were discussed.

Mr. GORDON: That will probably mean a very lengthy reply.

Mr. FISHER: Would you table it in the minutes?

Mr. GORDON: Yes. If you would like me to make a written reply and table it in the minutes I could do that. (See Appendix "A")

Mr. FISHER: I figure we will be here next year and I hope there will be some indication of progress from what you report this year.

Mr. GORDON: That is the point of my reply. There is a great deal more being done than appears on the surface. That is what I want to tell you about.

Mr. FISHER: Earlier you mentioned that you had 191 agreements with some 31 organizations. What I want to know is what changes in union agreements were negotiated in the past year which would encourage re-training and wider transfer of employees with long service from one union jurisdiction area to another?

Mr. GORDON: This re-training of employees and possible easing of seniority rules as they apply to transfers between employee groups are matters of concern to the company, particularly in this period of extensive technological change. Job preference has been and is extended to employees and laid-off employees. Furthermore, in so far as it is practicable to do so, redundant employees and those whose jobs will become redundant are provided by the company with opportunities to acquire new skills through re-training. Subject to any collectively bargained limitations, re-trained employees are transferred to work in their new skills.

Of course it must be remembered that point and craft seniority provisions have certain prohibitions. There are clauses in the agreements which have been negotiated with the various union groups. During the past year no changes have been negotiated in collective agreements which will result in easier transfers between unions. However, within specific unions there have been adjustments in seniority groupings where organizational or technological changes have required the transfer of employees and the dovetailing of seniority groups.

Mr. Chairman, as I said earlier in the discussion this morning, management is prepared at all times to negotiate with the unions on these matters. How-

ever, our experience has been that the unions have shown little desire to enter into agreements which would permit broader transfers on an inter-union basis.

Mr. FISHER: My next question, in a sense, follows from this. I think you have touched on it, but perhaps for clarity you might like to give a direct answer. Since a great many grievances in connection with working conditions and changes in operation are carried to members of parliament, does this indicate a possible failure of union grievance procedure? If so, in which particular types of employment is this failure most noticeable to management?

The CHAIRMAN: I think he dealt with that quite a bit this morning.

Mr. FISHER: I think he did, but I do not think I had a direct answer to anything as specific.

Mr. GORDON: The proposition put forward in that question does not indicate a failure of the unions' grievance procedure. Grievance procedures have been agreed upon specifically in the wage agreements between union and management, and union representatives have frequently expressed satisfaction with the manner in which we are able to dispose of complaints. Employees have not expressed any significant desire for changes in these procedures through their union representatives, judging by demands served upon the company. It seems a reasonable conclusion that present grievance procedures are satisfactory to the majority of our employees. I should add that it becomes a matter of definition. What is meant by a grievance? If a member feels he has been unjustly dealt with by some supervising officer, he goes to his union representative with his complaint. There is a well defined procedure in that connection. There are a great number of grievances of that kind. It might have something to do with the method of calculating a wage summary, or payment, or something of that kind. It might be an interpretation of the rule change. There are all sorts of things of that kind. There are scores of possibilities for grievances, and in that respect we think our procedures run quite well. When it comes to things such as were dealt with this morning I do think it is questionable whether or not what is being done is working as it should, because as we pointed out this morning there is a tendency now to try to take these broader issues over the head of management. If that is the grievance you are thinking of, I do not think it is a satisfactory situation.

Mr. FISHER: I have five letters in connection with the Transcona shop train which was taken off. I wrote back saying surely this is a union matter, and from four of them I had the reply that they had taken it up and they did not figure the union was doing anything about it, and there was not much satisfaction.

Mr. GORDON: That is a very important point. I am glad you brought it up. That is simply an illustration to show that in these individual cases the employee went to his union representative with his grievance. The union representative heard that grievance and came to the conclusion that it was not justified, and he at that point said: "Now, look, Bill, this is not something you are entitled to have a grievance about." And he talks to him about it. But that individual may still go out and say: "I still do not agree". And then he writes to you. But that is running around the grievance procedure, and that is a matter really between the unions and the individual employee.

Mr. FISHER: May I move on to the next question? Does the C.N.R. support compulsory arbitration of wage disputes as recommended to the government by the Canadian railway association? If so, what yardstick for the determination of wages would you expect the arbitrator to use?

Mr. GORDON: The view of Canadian National Railways on the subject of compulsory arbitration is well pointed up in the "Submission of the Rail-

way Association of Canada to the Honourable Michael Starr, Minister of Labour on the Industrial Relations and Disputes Investigation Act," dated September 30, 1958. That document points out that the signatory railways support the principle of free collective bargaining.

Mr. FISHER: I cannot gather from that Canadian railway association brief what the yardstick for the determination of wages would be.

Mr. GORDON: What we are talking about really is about the bargaining and mediation processes. The report says: "That if the mediator reported that the dispute was likely to result in the cessation or suspension of operation of essential transportation services, thus imperilling or otherwise affecting the vital interests and the welfare and security of the nation or a segment thereof which is dependent on such services", that the dispute would be submitted to a special board for final determination.

In other words, we are not suggesting any arbitration such as you are mentioning until all the regular processes have been exhausted. At that time it becomes a matter for the arbitrator to exercise his judgment in the light of the facts.

Mr. FISHER: In the past did you agree with the railways before the arbitration board had asked you for a certain yardstick? Is that true? Have you any particular yardstick in mind now?

Mr. GORDON: This is anticipating evidence which we will be giving before the board of conciliation, but I think it would be in order for me to indicate what we have done. All the railways in Canada have joined in making a thorough-going analysis of wage rates for similar types of work all across the country, and we intend to present a community index to indicate that our wage standards are adequate.

Mr. FISHER: You expect that they will be examined critically?

Mr. GORDON: Quite so, by the board, and the unions will of course put forward their yardstick, which is the durable goods industry, which we do not recognize as being a fair yardstick.

Mr. FISHER: You indicated this morning that you disliked the term "feather bedding"?

Mr. GORDON: Yes sir.

Mr. FISHER: Would you agree with the definition of feather bedding as being an employee who did not do a full day's work, and was protected in it?

Mr. GORDON: I would not like to define what is meant by "feather bedding". It is a term I have seen kicked around all over the place. The only attitude I have taken to it is with reference to the terms of our wage agreements, because they are what we are familiar with. We believe that our people should be able to decide on rules which have regard for the tremendous advances which have taken place in the railway industry. Work rules should belong not only to operations of the railway in a physical sense, but also to the over-all competitive atmosphere.

Mr. FISHER: The reason I used the term is this: is Mr. Gordon aware that there is a propaganda campaign among the unions all over Canada in this regard?

Mr. GORDON: That is right.

Mr. FISHER: I would like to find out if your railroad has made any studies to determine the existence of this sort of thing, and what it is costing the C.N.R.?

Mr. GORDON: As I said, I do not like the term but as you may know, an example of the rules to which I have been referring involves the firemen's case. I suppose you have a passing familiarity with that?

Mr. FISHER: Very much so.

Mr. GORDON: We made some estimates at that time which are beginning to be significant with the full impact of the removal of the firemen we can see savings ranging from \$17 to \$20 million, when that becomes fully effective. We did not expect by reason of the nature of the agreement to see any significant savings for some years. But in point of fact we are already getting noticeable savings during the last eight months, because of the fact that no firemen are available.

The saving is already of the order of \$240,000, or to bring it up to January, about \$255,000. We hope to get our real savings from about 1963 through to about 1971 when we will have no more of what we think of as surplus firemen. By that time the accumulated saving will be in the order of \$88 million. The other type of saving arises from the elimination of outmoded rules, if I may put it that way, which require the payment of arbitraries and things of that kind regardless of actual time spent on work done or required to be done, but which are not appropriate under present-day conditions. We are going to try to see if we can get our contracts on a basis where that can be recognized. We also have difficulty in that some of our agreements, particularly with the running trades, have different rules in western Canada than they have in eastern Canada. So we are going to make an attempt to see if we can get a form of agreement which would be common to the whole of Canada. We also have the difficulty in that we have different working rules applying to different members of the train and engine crew and these are things that we think should be mostly corrected. If you ask me to make an estimate of the savings I cannot do it, I really do not know.

Mr. FISHER: Can you make any estimate as to what it is costing?

Mr. GORDON: I do not think so for this reason, Mr. Fisher: as you know in the United States there was a very large figure, a nice round amount used—

Mr. FISHER: Yes.

Mr. GORDON: —and that figure has caused in my opinion, a great deal of bad feeling on the part of labour and indeed has not assisted relations between management and labour. My opinion is, if I started making estimates, which would only be estimates, the only result of that would be to cause hard feelings in the labour movement.

Mr. FISHER: May I put the question in a more positive way because I think a lot of this discussion and comment has been very unfair to labour? Do you feel that from by far the greatest majority of employees and their work you are getting full value for the wages they are drawing?

Mr. GORDON: What is it, again?

Mr. FISHER: Do you feel the Canadian National Railways are getting full value from the great majority of the employees for the wages they are paying?

Mr. GORDON: No, I do not. But I feel there are situations in which the application of rules which are no longer relative result in payment disproportionate to the actual work that is done, and I have particular reference to the subject of arbitraries affecting terminal times, care and responsibilities in respect of the mechanical condition of steam locomotives, for instance, which no longer apply but in respect of which, in the case of terminal time we have to pay once, twice and in some cases, three times for the same time period.

Mr. FISHER: You have told us, Mr. Gordon, that you feel the labour-management area is one which we as a committee should, I think, shy away from. But I think you can make a good contribution to good labour relations

in the railway and in the country if you could both delineate the scope of what you have just indicated and publicize it so we could get this out into the arena of public opinion, where some understanding could take place. I would like your views on that.

Mr. GORDON: My view on that is that the best thing to do for the benefit of labour-management relations is for management to proceed with labour and outline to them the sort of thing we think should be corrected. That is in hand now, but we do not believe that the proper time to talk to them about that is when there is a wage demand under way. So we are going to try to see if we can get a period of peace, so to speak, on the labour front and invite a conference of our labour groups, and we will place before them the things we think are unreasonable. We expect of course them to come back and tell us about some things they think are unreasonable. But we will be sitting down in an attitude of goodwill and trying to bring this down to a basis of present day conditions. If, when we have done that, we can make no progress, then I think your suggestion is pertinent but we will try the other first.

Mr. FISHER: I make that suggestion with the feeling that there is the other side of the case.

The CHAIRMAN: Have you any more questions, Mr. Fisher?

Mr. FISHER: I am almost through, Mr. Chairman. These are general questions I think Mr. Gordon has answers to. The next one is a question of detail about the lay-offs, by region, and the hirings by region. Can you file information instead of giving it to us?

Mr. CARTER: May I follow up with one question supplementary to what Mr. Fisher said?

Mr. GORDON: Excuse me, I would like to know what type of information you have in mind, Mr. Fisher.

Mr. FISHER: I would like to know the lay-offs and the hirings by region in 1959.

Mr. GORDON: Well, may I point out to you that that is a very unsatisfactory and very misleading figure.

Mr. FISHER: I know.

Mr. GORDON: Because it includes a deal of double counting. I think for your purposes it would be better if I gave you the mid-month employee count in each region. Would you prefer it by month or by year?

Mr. FISHER: By month.

Mr. GORDON: Then I will give you the mid-month count, which is a proper comparable figure. The other figure gets very distorted and needs a lot of explanation.

Mr. FISHER: Can you file that?

Mr. GORDON: I will be glad to file it, yes. (See Appendix B).

Mr. FISHER: I think we have a fairly clear statement from you on the policy with regard to pending lay-offs. Is there anything more you can add to it concerning the date and timing of those?

Mr. GORDON: At the moment we have no what you might call major lay-offs in contemplation. That will depend, however, on what happens to our traffic position. If our traffic shows a sharp downturn then we will have to make adjustments in accordance with conditions. But if we are able to maintain the forecast traffic level, I do not think we have in mind—I do not think you have, Mr. Dingle, any serious lay-offs in contemplation at the present time, have you?

Mr. DINGLE: Not for the moment.

Mr. FISHER: The last question I want to put is on a completely different topic and has to do with the Toronto by-pass matter. I want to keep it general and I would like to know when is your planning to be finalized and work done, and can you give us some indication of the type and character of the groups that are still opposing the plan?

Mr. GORDON: Well, that Toronto situation, as you have probably seen in the press, has caused a fair amount of excitement from various groups who had interests in either opposing or making suggestions for alternatives. These have all been very critically examined and we are reasonably satisfied that anyone with a genuine objection has been met with and provided for. As it stands now, we are advancing the legislation for the purpose of implementing the whole project and at that time I presume the Minister will be referring it to a committee and there will be full details at that time. Our intention is, however, to get on with the engineering and planning this year, to provide for the line. We have had a fair amount of success in buying the property both for the yard and for the line, and most of the difficult cases have been settled. We have the endorsement of all the leading official bodies, so to speak, in agreement with our plan.

Mr. FISHER: One last point on that. You may have noticed that I put in a request for the tabling of the DeLeuw Cather report on that. I do not know why the minister turned it down. I would think the report might be very helpful during debate in the house.

Mr. GORDON: You see, that report—let me see how I can phrase it—the recommendations in respect of the Toronto line and the building of it are the responsibility of Canadian National management. We employed the firm of DeLeuw Cather merely in the role of consultant and for the purpose of checking on our estimates. It is a tool of management in other words, and there are, in the course of the report, references to our own particular situation and so on, that add nothing to it. But this does not get away from the fact that I do not want this to be regarded as a DeLeuw Cather responsibility. It is not their recommendation necessarily that we are following at all. We merely employed them to check on our estimates and we want to make it clear that we stand behind our own recommendations.

Mr. FISHER: The argument was to me by ratepayers' groups and individual ratepayers that in discussion with the Canadian National officials they used extracts from this report to support their argument and yet they, in terms of rebuttal, did not have the total picture.

Mr. GORDON: You mean naming the DeLeuw Cather report?

Mr. FISHER: Yes.

Mr. GORDON: They should not do that. I am not aware that they have. I think perhaps some of your informants may have assumed they did. But certainly any expression of opinion relating to the line or what should be done is entirely a Canadian National responsibility and we should be examined on it on the basis of our justifying that whole project on our own.

Mr. FISHER: And we will have that opportunity then? I would like to ask the minister, will we have that opportunity this session?

Mr. HEES: Yes, I intend to introduce a bill this session and I intend to refer it to the committee on railways, canals and telegraph lines.

The CHAIRMAN: Mr. Carter, if you just have one question.

Mr. CARTER: Yes, I have one question on the labour-management problem. I think, sir, from what Mr. Gordon told us this morning it seems that the real problem in labour-management relations or at least a great deal of it can be traced back to these agreements and you yourself, Mr. Gordon, stressed

this morning that the national interest should be paramount. I was wondering if Mr. Gordon could tell us what steps are taken to cover the national interest when these agreements are being worked, because if the management is concerned with the narrow interests of the Canadian National Railways and labour concerned with the narrow interests of labour, then it is quite conceivable that the national interest might be tossed out the window altogether.

Mr. GORDON: I cannot imagine a situation where you would negotiate a wage agreement with a government official or government representative sitting in and telling you what to do. I would think our labour friends would have views equally strong as our own in that respect.

Mr. CARTER: I do not think it is a case of telling either party what to do, but to work out your agreement in the light of, not what is best for the Canadian National or what is best for labour per se, but what is best for the nation as a whole. I do not think the interests of either party necessarily coincide with the national interest.

Mr. GORDON: Well, that is a purely altruistic point of view and I congratulate you on it, Mr. Carter, but if you ask me as a man of experience I would say it is wholly impractical.

Mr. CHOWN: Mr. Chairman, may I make one observation on labour-management relations? I had some complaints from your employees to the effect that it was taking quite a while for them to get a record of their service for pension purposes or to ascertain the amount of retroactive contribution they had made under plan 2. Might I just suggest that this should be looked into, or am I barking up the wrong tree? Do you take six months to get that?

Mr. GORDON: I agree. I would like to catch one of those and I will see that the person who is responsible is told about it. If you have any cases of that kind, I would like you to let me know about them and I will see about it. There is no excuse at all for a case of that kind.

Mr. BROWNE (*Vancouver-Kingsway*): Mr. Chairman, I would like to place a motion before the committee. It arises out of some of the questions I asked Mr. Gordon yesterday in connection with the acquisition of truck lines by the railway. At that time Mr. Gordon said he did not feel he was in a position to disclose the names of those who were under option and it would not be in the interest of the railway to do so. Of course, the committee will have to accept that statement. I do, however, feel that the acquisition of truck lines by the railway is a very important matter and one that must be very carefully considered by this committee. I think it has become clear during the examination of Mr. Gordon on the business of the Canadian National Railways that one of the difficulties facing it is competition, and one of the reasons they have a deficit is because they are not able to raise their rates because of competition. I feel that while this situation is detrimental to the railway in some respects, at the same time by making the railway more efficient, it also tends to keep their rates down. My feeling is that if the railway is able to go too far in acquiring competition, I think there are two dangers which arise. One that I mentioned is that the railway is possibly in a position to force competition out of business by means of agreed charges, and now they have this other field open to them of acquiring the competition by purchasing it.

My position is, if the railway were to go too far in that regard we might well find that competition would disappear and that rail rates would rise very rapidly. Therefore, I would like to place the following motion before the committee seconded by Mr. Chown.

Moved that the Canadian National Railways be not permitted to purchase nor make any commitment to purchase any further truck

lines or interests in trucking concerns until Parliament has been informed of the names of all trucking interests and firms which have already been purchased or are under option to the Canadian National Railways.

The CHAIRMAN: Do you think this is the right time in this committee to move this? Is not the place to move it when we are adopting our report to Parliament, if you are making that much of a change? I think this motion would come better when we are framing our report to go to Parliament and present this proposition to Parliament.

Mr. BROWNE (*Vancouver-Kingsway*): I have no objection to when it is moved. I just wanted to make sur I put it before the committee.

Mr. BROOME: Then, Mr. Chairman, you will be calling a special meeting of the committee to frame its report?

The CHAIRMAN: Yes.

Mr. FISHER: Has it not been a tradition in the past that what we do is move through the report item by item until we have it approved in totality, and that in fact is the procedure? I am asking does not this motion introduce an element that I have not found at least in checking back in these reports? I think it is one that causes a complete change in the whole procedure.

The CHAIRMAN: That is the point, Mr. Fisher. I do not think we can deal with it here. I will read it anyway, although I do not think it should properly come before the committee at this particular time.

Moved and seconded that the Canadian National Railways be not permitted to purchase nor make any commitment to purchase any further truck lines or interests in trucking concerns until Parliament has been informed of the names of all trucking interests and firms which have already been purchased or are under option to the Canadian National Railways.

I do not know just how you would handle it, but it would have to be considered in the report. We would have to decide as a committee whether we would adopt it or not, and then submit to to Parliament in our report.

Mr. CARTER: Mr. Chairman, as it is now worded it is not in order at all. We do not permit the Canadian National Railways to do anything.

The CHAIRMAN: Well, that is a matter that we would deal with before we submitted our report to Parliament. As Mr. Fisher has mentioned, it is an innovation, a change. We will not discuss the merits or demerits of it now because it is not before us. I would rule that it is not in order.

Mr. CHOWN: May I say one thing, Mr. Chairman? It expresses the feeling in part of certain members of this committee that they would like to sit in on the composition of your report and to place before the minister first, and through him to the directors and management of the Canadian National Railways, certain ideas that they have in their minds with regard to its operation.

One of the significant ones was the idea of the board of directors being enlarged. There is quite an apparent feeling favouring that among the members of the committee. In fact it shocked us to see that Trans-Canada Air Lines, which is a baby of the Canadian National Railways so to speak, has at least nine directors as opposed to the larger corporation which financed them which has seven, I believe. So that if you would take the motion as an expression of that feeling among the members, perhaps my hon. friend would withdraw it on that condition.

Mr. SMITH (*Simcoe North*): I think it ought not to be tabled until we are writing the report. This ought to be dealt with as an amendment that perhaps funds be withheld until such and such a course of action is followed. I am not now speaking either in support or against the motion, but I think as a matter of procedure the time to do it is the time the report is being prepared and perhaps there should be an amendment to the effect that no more funds be provided or the budget be not approved until such and such course of action has been followed. It should be done as an amendment to the report.

Mr. CARTER: Would it not be more a notice of motion at the present time?

Mr. BROOME: Speaking on this point of order, as I recall last year we got a mimeographed copy of the report. We were asked by yourself for comments. That is my understanding of what happened last year and the intent of this I would presume is that you would call a regular meeting of the committee and the committee approve the report.

Mr. MCPHILLIPS: That is what we did last year. You called a meeting. I do not think the motion is out of order completely, but I think it should be tabled until we are at that stage.

Mr. CHOWN: That is satisfactory.

The CHAIRMAN: Now, any other questions, Mr. Browne?

Mr. BROWNE (*Vancouver-Kingsway*): No, nothing else.

The CHAIRMAN: Now, Mr. Drysdale, you are next on the list.

Mr. DRYSDALE: Mr. Chairman, I think first of all in case I do not get an opportunity again I would like to commend Mr. Gordon on the method of presentation. I think it was refreshingly in contrast perhaps to the method that we used last year, and I certainly hope this practice will be continued perhaps next year with some of the improvements suggested by the members of the committee. But the point that I was primarily interested in, Mr. Gordon, was the statement that you made on the first day regarding the matter of passenger train policy. You set out the fact that originally the railways had been looked at as a monopoly with a duty to provide service wherever and whenever possible. You have said—I have to paraphrase you because I have not seen the report—that now there is no longer any obligation to provide passenger service except on the basis of economics. This particular statement—I realize that perhaps in practice you have been doing this, but this particular statement seems to be a crystallization of your new policy and I wondered, is this the first outline of your new policy and did it come up or was it discussed with the board of directors or when did it come into being?

Mr. GORDON: Well, it is the first expression of it, perhaps, and it is sort of a preview of the line we intend to take before the Royal Commission.

Mr. DRYSDALE: I wonder if you could perhaps elaborate on two points? First of all, I think you mentioned, at the time you made the statement, something about the C.P.R. and C.N.R. combining or co-operating, perhaps, in withdrawing from certain areas. Is this a new policy?

Mr. GORDON: No; what I said there was that the C.P.R. and ourselves are currently engaged in a most intensive exploration of all aspects of our passenger services. Then I gave the committee an idea of the sort of thing we are exploring to see if it is a practical proposition. I was saying that merely as a commentary, for the information of the committee.

If we do arrive at any practical methods that we think would help to cut down duplication and eliminate unprofitable, non-patronized services, we

would still have the requirements of the law to observe and would have to go before the Board of Transport Commissioners in respect of that kind of program.

First of all we want to decide, as a practical matter, what can be done. Mind you, I said in the statement—and I have not got the one I read from, but this is close enough—that we, and when I speak about “we”, I mean the C.P.R. and ourselves definitely recognize that while essential or even highly convenient passenger services require to be continued in the public interest, they must be on a highly selective basis. Then I went on to say that we believe a merging of services might be found possible with a view to reducing the costs due to unnecessary service. That is what we are trying to explore. If we are successful in demonstrating that we will meet the essential needs of the public, we will put our proposals—if they need to be put—before the Board of Transport Commissioners for approval.

Mr. DRYSDALE: In connection with your “pay later” plan, your group economy and your all-inclusive plan, you mentioned, of course, that it is too early to evaluate satisfactorily where they are going. But taking that in connection with the graph which you showed, I think one of them indicated that approximately 85 per cent of the inter-city travel is by automobile.

Would it be fair to say that perhaps your long-range policy—and I do not know if you want to be pinned down in the matter of years—would be to get out of the passenger business completely?

Mr. GORDON: No, I would not say “completely”. I think there will be a recognition that on the long-distance passenger service the air lines have got us licked to a frazzle, both in terms of cost and speed. But there is an area of competition for inter-city traffic which I think is still open to us, and also on certain main line runs where the distance is short enough to make us a competitor of the air line.

To give you an example—just to illustrate—rather than to pinpoint it—let us consider the run from Montreal to Toronto. By the time the air lines get into the business of jet planes they will not find it economical to put a costly jet plane into short runs like that. The air lines will still be our competition in some respects, but we think we can make our service, on an overnight basis, appealing to certain classes of travel. However, on a direct run from Montreal to Vancouver, no—we do not see it.

Mr. DRYSDALE: In other words, you would perhaps, I might say, disagree with the present T.C.A. policy of flying DC-8 jets from Montreal to Toronto?

Mr. GORDON: You must remember that I am a member of the board of T.C.A. and agree with their policies, support them, and hold them in the highest esteem and admiration!

Hon. George H. HEES: (*Minister of Transport*): Small bow!

Mr. DRYSDALE: That is all, thank you.

Mr. FISHER: I have a supplementary question. Mr. Crump has given an indication publicly that he thinks this plan of souping up passenger revenue has failed; that he already had the indication a month ago. Is that your experience?

Mr. GORDON: No, I am not ready to say that yet. Perhaps that may be because of some pride of authorship, because it was the C.N.R. which originated the plan and got it working as an experiment to see what could be developed. It has not been going on long enough for us to be thoroughly discouraged, although Mr. Crump has indicated that he does not believe it will work out to anything like the volume which would justify it.

Mr. FISHER: You have 16 train units on the trans-continental service; is that correct? What is the life of these units—I mean, in terms of use?

Mr. GORDON: The best way to answer that is on the depreciation life that

we use in writing these cars off. In certain types of passenger equipment it will run up to 50 years. We are depreciating our diesels now on the basis of 20 years. It will vary according to the type of equipment.

Mr. FISHER: You will have the equipment for a lot longer than you will probably have the time to make the decision as to whether to remove it.

Mr. GORDON: It could be. Then we will have to find means of adapting the equipment to other uses.

Mr. SMITH (*Simcoe North*): A divisional center in my riding suffered some years ago what Mr. Grills is about to suffer now, in dealing with the displacement of employees. It seemed that some of the seniority rules in the craft unions did not contribute to getting them placed again.

During your evidence you have mentioned the multiplicity of contracts you have with the unions. Is there any tendency to simplify the contracts or reduce the number of contracts within the unions of the railway employees?

Mr. GORDON: No, I do not see any evidence of that.

Mr. GRILLS: I have just a couple of short questions. The average annual earnings of employees is \$4,270. Who does that include? Do you start at the top?

Mr. GORDON: That includes everything, including all the salaries and all the wages, right down to the office boy.

Mr. GRILLS: The board of directors?

Mr. GORDON: No, the board of directors is not included in salaries. They are paid a director's fee. But the amount of money involved in that fee for the board of directors would not make a difference of a fraction of one per cent: it would hardly be noticed. You will remember that there are only 7 directors, and the directors' fee is \$5,000 a year.

Mr. GRILLS: Does it take in all officials?

Mr. GORDON: It takes in all officials, including myself.

Mr. GRILLS: This question may have been asked when I was not here. I am often asked why the C.N.R. does not have dome cars on their trans-continental trains.

Mr. GORDON: The reason the C.N.R. does not have dome cars is because we did not buy them.

Mr. GRILLS: Why did you not buy them?

Mr. GORDON: The reason we did not buy them was that some years ago, when we decided to invest the sum of \$50 million in rehabilitating passenger equipment which had been pretty well worn out during the war years, our traffic officials decided, as a matter of policy, that we were better off in spreading that \$50 million around to improve as much of our passenger equipment as possible. It was a matter of managerial decision. As you know, the C.P.R. decided to specialize on their "Canadian" with dome cars. That led them into the problem that that equipment can only be used for that service. I cannot say whether they are still happy about that decision; all I can say is that I am glad I did not make it.

Mr. GRILLS: It is a very attractive car to ride in.

Mr. GORDON: Yes, but have you ridden in it lately and seen how many passengers there were in it?

Mr. GRILLS: When I was in there I thought it was a lovely spot: I was there all day.

Mr. BENEDICKSON: Your first trip!

Mr. GRILLS: No, but—

Mr. BROOME (*Vancouver-Kingsway*): Mr. Chairman, there is one question which I intended to ask earlier and which I forgot. It is a question on

one of the charts that showed that capital investment would decrease from \$250 million at the present time down to \$150 million in 1965. At the same time, the fixed charges were going up. Why should that be? When the capital investment goes down, how would the fixed charges go up?

Mr. GORDON: We were pointing out that our borrowing total is of course accumulated year by year, and we pay interest on the total amount outstanding in the hands of the public. What I was bringing out there was that our borrowed total is going up year by year, plus the fact that the cost of interest on borrowing has also increased substantially. That means our fixed charges go up. The only way we can get them down is to earn a surplus and start to pay off the debt.

The CHAIRMAN: You want to ask something Mr. Chown?

Mr. CHOWN: I was going to move the adoption of the annual report of the C.N.R.

The CHAIRMAN: Mr. Chown wishes to move the adoption of the annual report of the C.N.R.

Mr. BENIDICKSON: Mr. Chairman, I heard Mr. Grills raise another question about the board of directors. My recollection is that small as the board is, it used to have what they called "an executive committee," and I think they lived regularly in Montreal. Is that still the practice? Is there a distinction between an ordinary member of the board and what you called "the executive committee"?

Mr. GORDON: No. The provision in our by-laws is that I can create an ad hoc executive committee of two directors and myself at any time to deal with matters of emergency. It is a very flexible arrangement, but we have no specific directors named on the executive committee. It is any two directors and myself.

Mr. BENIDICKSON: That was normally the practice, I recall that in the past there was on the board an ex-employee. I knew him very well because he came from my home town. His name was Mr. Daly. Is his equivalent on the board now?

Mr. GORDON: Yes, Mr. Griffith is an appointment for the labour interest, and he is a former C.N.R. employee.

Mr. CHOWN: I move the adoption of the annual report of the C.N.R., 1959.

Mr. FRASER: I would like to second that.

The CHAIRMAN: It is moved by Mr. Gordon Chown and seconded by Mr. Gordon Fraser that the annual report of the C.N.R., 1959, be adopted.

Mr. FISHER: How can we entertain Mr. Brown's motion or idea if we have the report adopted?

The CHAIRMAN: We cannot entertain it, I do not think. You were not here, Mr. Fisher, when it was dealt with. I think it would have to be dealt with when we meet to draft the report to parliament. Then we can decide, as a committee, whether we will recommend that to Parliament or not. That will be the "64-dollar question," Mr. Browne.

Mr. FISHER: Would you read the terms of reference again? I do not want Mr. Browne to lose the opportunity of pursuing this.

The CHAIRMAN: I do not think that he has it to lose really. However, to repeat the terms of reference again:

The the annual reports for 1959 of the Canadian National Railways, Canadian National (West Indies) Steamships Limited, Canadian National Railways Securities Trust, Auditor's Reports to Parliament in respect of the Canadian National Railways and of the Canadian National (West Indies) Steamships Limited, the budget for 1960 of the Canadian Na-

tional Railways, the Annual Report of Trans-Canada Air Lines for 1959, the Auditor's Report to Parliament on Trans-Canada Air Lines for 1959, tabled this day, and the budget for 1960 of Trans-Canada Air Lines, tabled on March 1, 1960, be referred to the Sessional Committee on Railways, Air Lines and Shipping;—and that the said Committee be empowered to send for persons, papers and records, and to report from time to time; and that, notwithstanding Standing Order 67 in relation to the limitation of the number of members,—

—and so forth,

the said Committee shall consist of—

—and so on.

Mr. DRYSDALE: In that situation, would it not be a case of approving this capital budget? Perhaps the easiest way would be to approve the capital budget except for the Canadian National Transportation limited?

The CHAIRMAN: No, you could not do that.

Mr. DRYSDALE: Why not?

The CHAIRMAN: As I see it, these meetings are held for the Sessional Committee to deal with these specific matters. Then, after we have adopted the motion that Mr. Gordon Chown has moved and Mr. Gordon Fraser has seconded, we adopt the report and adopt the budget. Then, when we meet to frame our report to Parliament, we can deal with this, as to whether we as a committee, after hearing this, will recommend this motion to Parliament.

Mr. BROWNE (*Vancouver-Kingsway*): I might suggest, if the proper time to deal with my motion is when the committee is drafting its report, surely the proper time to deal with the budget and the annual report would be when we are drafting our report to Parliament.

The CHAIRMAN: That is not in this meeting of our Sessional Committee. It is:

That a sessional committee on railways, airlines and shipping owned and controlled by the government, be appointed to consider the accounts, estimates and bills relating to the Canadian National Railways—

—and so on. That is what we are here for.

Mr. DRYSDALE: And the budget too.

The CHAIRMAN: The terms of reference are that

A sessional committee . . . be appointed to consider the accounts, estimates and bills relating to the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines—

—and so forth.

—and that the said committee be empowered to send for persons, papers and records, and to report from time to time; and that notwithstanding standing order 67 in relation to the limitation of the number of members, the said committee shall consist of—

—and so on.

At this stage, all the order of reference calls for us to do is to consider the report of the Canadian National Railways, the report of the Canadian National (West Indies) Steamships, the report of Trans-Canada Air Lines, and the others, and the annual budget.

Then, when we meet again to discuss the report that we as a committee shall present to Parliament after Mr. Gordon and the others have left—when we are deciding as to what we shall report to Parliament, then your motion, I would think, would come in, as to whether we would present this motion, as a committee.

Mr. FRASER: A recommendation.

The CHAIRMAN: A recommendation that we have decided to recommend to Parliament.

Mr. BROWNE (*Vancouver-Kingsway*): If the committee approves the budget, how can they report to Parliament that such and such a course of action follows.

The CHAIRMAN: We are here to approve it or to reject it.

Mr. SMITH (*Simcoe North*): On the point, I think Mr. Chown's motion is irrelevant and out of order. We are not here to approve or otherwise Mr. Gordon's annual report: we are here only to consider and approve all the accounts, estimates and bills relating to it.

The CHAIRMAN: Take it that way. Give me a motion on the budget.

Mr. SMITH (*Simcoe North*): I think those are the three matters we are here to approve or reject, exactly as written in the order of reference.

Any comments that we make either on the report or on the operations are gratuitous comments in the sense they go in the report.

Mr. CHOWN: I amend my motion accordingly.

The CHAIRMAN: You move the adoption of the annual budget?

Mr. BENEDICKSON: I do want to point out, Mr. Chairman, with respect to the report for last year—I am not too familiar and I have forgotten what the obligations of this committee are—but to accept the program of the C.N.R. as contained in its budget, includes an item of capital for this trucking subsidiary. I do not know whether Mr. Browne requires the attendance of these witnesses again. If he does not, I want to point out to the committee that annually—no matter what this committee does—there will be introduced into the House of Commons a bill with respect to the capital expenditure of the C.N.R.; and at that time, both in the resolution stage and in the various stages of the bill itself, if it is a matter of questioning the Minister of Transport about information that might have come to him in the meantime, that might arise. I think any person can move that at that stage. Anybody can move that this item of \$5 million be deleted from the bill that would be presented in the ordinary way about June, I think.

Mr. BROWNE (*Vancouver-Kingsway*): On this point, I would like to call to your attention this is what the committee reported last year:

Your committee informed the House that it had considered and approved the capital budget and the estimated income account for 1959 of the Canadian National Railways.

I have suggested to the committee, in the form of a motion, they do not accept that but make a qualification to the acceptance of that report, in the form of a recommendation.

If the committee approves the budget at this time, how can that be taken into consideration?

Mr. BROOME: Do you need any formal motion at this time? We have to have that meeting to consider our own report. There may be other recommendations made. There is nothing in the terms of reference which says we are precluded from making any recommendations.

The CHAIRMAN: No, no.

Mr. BROOME: It is wide open to the committee to consider recommendations that may be made, and there is a time and place for that. All we have to do is to say, "Thank you, Mr. Gordon"—

Mr. FISHER: And, "Cheerio".

The CHAIRMAN: It has always been rather the common courtesy of the committee in the past, unless there is something unusual, to accept the report, and to approve and adopt the budget. However, I think that does not preclude Mr. Browne from his motion that we recommend to Parliament a drastic change for the future.

Mr. FISHER: This is a Sessional Committee, and surely it just has to do with the operations this year. This committee is constituted each year and dismissed each year. Its function is completed.

I would like, if I may, to speak against Mr. Browne's motion. It seems to me that if we as a committee discuss it and forward it to the house it has to be a criticism and disapproval of this year's budget and estimates.

Mr. BROWNE (*Vancouver-Kingsway*): One other point, Mr. Chairman: my motion, of course, does not in any way intend to take any funds away or to disapprove of anything in the budget. It requests that money not be expended in acquiring any further trucking interests. It is not my intention that the C.N.R. should not receive the money for which they are asking. I am asking that it not be expended, and the budget could be approved on that basis.

The CHAIRMAN: If you would allow me—and I do not want to be critical on your point—to read the motion again, you will see it does not have any effect on this year's business. This is the motion—moved by Mr. Browne and seconded by Mr. Chown, that the Canadian National Railways be not permitted to purchase nor make any commitment to purchase any further truck lines or interests in trucking concerns until Parliament has been informed of the names of all trucking interests and firms which have already been purchased or are under option to the Canadian National Railways.

Mr. FISHER: I would like to argue that this is a problem for the standing committee.

Mr. BROOME: Which one?

Mr. FISHER: Railways and canals.

The CHAIRMAN: I will go along with you on that.

Mr. FISHER: Perhaps we could ask the minister for his advice on the matter.

Mr. GORDON: May I make a suggestion?

The CHAIRMAN: Yes, proceed.

Mr. GORDON: As I understand the motion, Mr. Browne wants to know the names of the trucking companies which we have either purchased or have under option as of now; and all he is suggesting is that he wants Parliament to be informed. If I give the names will that satisfy you?

Mr. BROWNE (*Vancouver-Kingsway*): Yes.

Mr. GORDON: Well, we can settle it on that basis. But I am telling you that it is not in the best interests of the Canadian National Railways, and that it will probably complicate negotiations. However, if you are bound to put me in that position, I will give you the names.

Mr. BROWNE (*Vancouver-Kingsway*): Mr. Gordon, my motion was designed so as not to put you in that position. All I asked was that at a convenient time and at a time not detrimental to the railways we be informed of that, before you enter into any other purchases.

The CHAIRMAN: In future.

Mr. SMITH (*Simcoe North*): Mr. Chairman, I think I know the names of the companies that are under option, and I think Mr. Browne knows them as well.

Mr. BROWNE (*Vancouver-Kingsway*): You may speak for yourself; I do not know them.

Mr. SMITH (*Simcoe North*): I am sorry; I should not have said that. However, I think I know them, and any that I do not know I can find out; and I think Mr. Browne could find out. Although I have grave doubts about some of the problems concerning it, I would not want to be in the position of dragging the names of the companies out in this committee against Mr. Gordon's better judgment.

Mr. DRYSDALE: Would it be possible to effect a semi-compromise? I think, basically, rather than have the actual names of the companies if you could indicate, perhaps, the number of outright purchases where you have purchased the assets and, perhaps, the number of companies where you have acquired shares in the company; also, the number you have acquired under option. I may not have understood Mr. Browne correctly, but my viewpoint is that what we are trying to ascertain, as a committee, is what the long range objective of the C.N.R. is in acquiring trucking interests, or is it an ad hoc scheme? At the same time, because of the way you are making purchases, at present it is impossible, on your own statement, to tell us exactly what you are doing.

The CHAIRMAN: I thought he dealt with that yesterday.

Mr. DRYSDALE: I do not think so.

Mr. GORDON: Gentlemen, please do not think for a moment that I am deliberately making any mystery about this. I am perfectly willing to give the names. However, certain of these negotiations are not complete from a legal point of view. There is still a bargaining element between ourselves and the interests involved. I do not know whether in each case we will buy the shares nor do I know whether it would be more beneficial to enter into some sort of leasing arrangement. Perhaps I have been too sticky about it. Perhaps I have been bending over backwards and, if it will relieve your anxieties, I will give Mr. Browne the names.

The CHAIRMAN: I do not think that our committee should have the names at the present time if it is going to interfere with sound and effective negotiations with the companies. I do not want to take the responsibility for this, as a member of this committee.

Mr. BROWNE (*Vancouver-Kingsway*): Is it not up to Mr. Gordon?

The CHAIRMAN: He has made no protest, but I think we should poll the committee and see whether the committee, as a whole, is in favour of it.

Mr. DRYSDALE: All we are trying to do is to get an accurate prediction. I think the total amount invested is approximately \$10 million.

Mr. GORDON: No; \$5 million.

Mr. DRYSDALE: You have \$5 million actually invested now. Could you indicate when you think you would be in the position to advise Parliament, through the committee or through publicity, as to the completion of that?

Mr. BENEDICKSON: I was going to ask a similar question, knowing this usually comes before Parliament. The capital bill comes before Parliament in June. Does the president think by that time, through the voice of the Minister of Transport, that he would be in a better position to give this information?

Mr. GORDON: I would expect so. I think over the course of the next six weeks or two months we will be able to get some of these entanglements worked out. But we are dealing with lawyers, and they are the most unpredictable people I know. There are many technical points which come up, and it all takes time.

Before I left Montreal I discussed with our legal people the matter of where we stood. Their advice to me was that if I could persuade the committee—and they used the word “persuade”, mind you—that it would be in

our best interests not to divulge the names until we get it tidied up. I think that would be the best thing to do, but I do not think it is all that important.

Mr. BROWNE (*Vancouver-Kingsway*): My feeling is just this: you have \$5 million committed now, and it is the intention to proceed with another \$5 million. Under the circumstances I feel that it is very difficult for a committee to make any intelligent decision on what effect it is going to have on competition in the field of transportation—when we cannot see what is being done, and it may go on indefinitely. They may be under option for two years before some of these things are cleared up.

Mr. GORDON: That is not the case. At the moment we have these things in play and, as I mentioned, I would be disappointed if we did not clear them up in the course of the next couple of months.

Mr. FISHER: I would like to ask the Minister to make a statement with regard to this matter, because it seems to me that all of us are missing the reality of the situation in that we are a microcosm of the house, where we have a government and certain powers. Surely the Minister is in a position to advise us as to whether or not he thinks this should be released, or whether he thinks it will create a bad precedent. I feel that he should give us his advice before we go any further.

Mr. HEES: This is 100 per cent a matter for the committee to decide. Mr. Gordon has told the committee that he feels it would be harmful to negotiations now going on if he divulges the names, but he says he is willing to give the names if the committee wishes.

I repeat that it is a matter 100 per cent for the committee to decide. If you want to have a vote by the committee as to whether or not the names will be produced—and Mr. Gordon has indicated he will abide by the decision of the committee—do so, and let us get on with the vote.

Mr. BROWNE (*Vancouver-Kingsway*): I have not asked for this information to be produced. I have explained to the committee that my motion was designed to take effect so that it would not embarrass Mr. Gordon or the railroad. I did not ask for the names to be given now.

Mr. HEES: I was asked a question by Mr. Fisher. Mr. Gordon has said that he expects that these names will be disclosed within two months. Surely anyone who wants to know could wait two months. Perhaps Mr. Browne would withdraw his motion; but let us get on with it. As I said, it is up to the committee 100 per cent to decide what you want to do.

The CHAIRMAN: You are not prepared to withdraw your motion?

Mr. HEES: Let us have the vote.

Mr. BROOME: Are we voting on Mr. Browne's resolution?

The CHAIRMAN: No.

Mr. HEES: Are we not voting on the question of whether or not the names should be submitted?

The CHAIRMAN: Mr. Browne, I do not know just what importance this is or which competition will be hurt the most. I will endeavour to be an arbitrator at this point. Would you be satisfied if Mr. Gordon would give you personally the names.

Mr. BROWNE (*Vancouver-Kingsway*): Yes.

The CHAIRMAN: And that you keep it in confidence.

Mr. BROWNE (*Vancouver-Kingsway*): Yes. I would keep the information in confidence.

The CHAIRMAN: Would you be satisfied to withdraw your motion at this time?

Mr. BROWNE (*Vancouver-Kingsway*): Yes.

The CHAIRMAN: We will now have the motion of Mr. Chown and Mr. Fraser that the report of the Canadian National Railways and the budget be accepted?

Will all those in favour so indicate?

All those opposed?

Motion agreed to.

CANADIAN NATIONAL RAILWAYS

DONALD GORDON,
Chairman and President.

MONTREAL, March 4th, 1960.

The Honourable George Hees, M.P.,
Minister of Transport,
Ottawa, Ontario.

Dear Sir:

On behalf of the Board of Directors, I submit herewith the Annual Report of the Canadian National Railways for the year 1959.

Mr. W. J. Parker of Winnipeg, Man., who had been a member of the Board of Directors since November 1st, 1949, retired on March 9th, 1959. On the same date, Mr. H. W. Marsh, of Regina, Sask., was appointed a Director by Order-in-Council No. 1959-280.

It is with pleasure that I record the appreciation of the Management for the loyal and effective service rendered by officers and employees throughout the organization.

Yours sincerely,

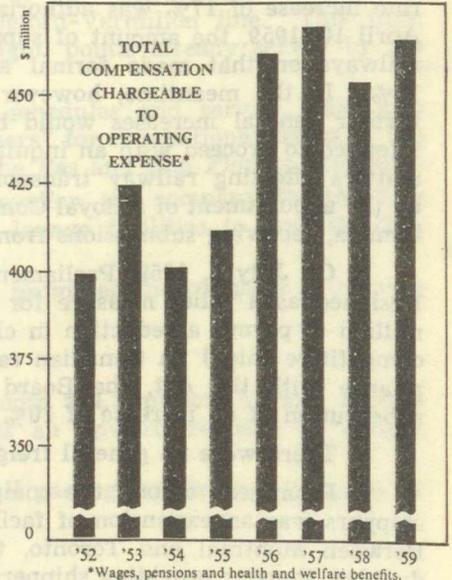
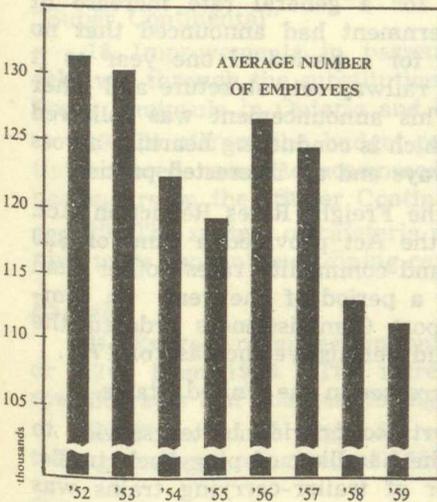
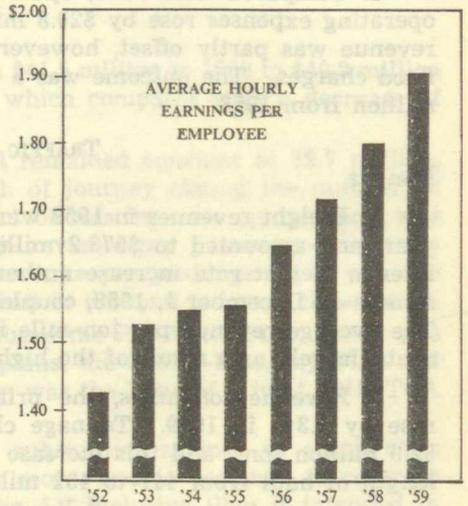
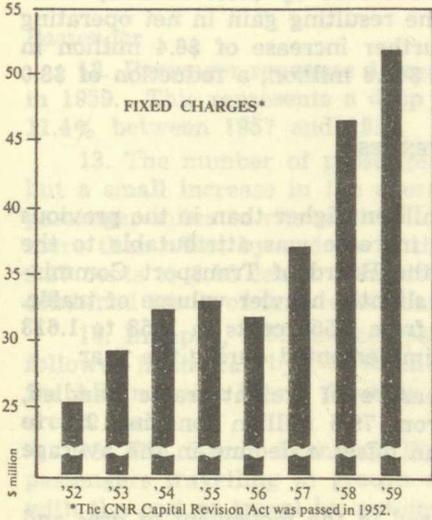
Donald Gordon.

HIGHLIGHTS ANNUAL REPORT 1959

| Financial Results | 1959 | 1958 | Increase or Decrease |
|---|-------------------|-------------------|-------------------------|
| | \$ | \$ | \$ |
| Railway operating revenues..... | 740,165,041 | 704,947,410 | 35,217,631 |
| Railway operating expenses..... | 720,822,338 | 700,021,499 | 20,800,839 |
| Net revenue from railway operations..... | 19,342,703 | 4,925,911 | 14,416,792 |
| Taxes, rents, less other income..... | 10,012,107 | 9,996,099 | 16,008 |
| Available for fixed charges..... | 9,330,596 | 5,070,188 | 14,400,784 |
| Fixed charges..... | 51,918,886 | 46,521,236 | 6,397,650 |
| <i>Deficit</i> | <i>43,588,290</i> | <i>51,591,424</i> | <i>8,003,134</i> |
| TRAFFIC | | | |
| Revenue tons..... | 82,035,539 | 79,486,001 | 2,549,538 |
| Revenue ton-miles..... | 35,542,136,785 | 35,076,836,756 | 465,300,029 |
| Revenue per ton-mile..... | 1.613c | 1.554c | .059c |
| Number of passengers..... | 12,693,777 | 12,737,113 | 43,336 |
| Revenue passenger-miles..... | 1,272,152,625 | 1,263,780,666 | 3,371,959 |
| Revenue per passenger-mile..... | 3.159c | 3.270c | .111c |
| EMPLOYEES | | | |
| Average number of employees..... | 111,538 | 113,086 | 1,548 |
| Average annual earnings per employee..... | \$4,270 | \$4,048 | \$222 |
| Compensation to employees* chargeable to operating expense..... | \$464,863,202 | \$452,124,726 | \$12,738,476 |
| Compensation to employees as a percentage of operating expense..... | 64.5% | 64.6% | .1% |

* Represents wages, health and welfare benefits, and pensions.

Annual Report 1959



ANNUAL REPORT

1959

1. Increased revenues together with a tight control of operating expenses enabled Canadian National Railways to close the year 1959 with a modest improvement in its net financial result.

2. Compared with 1958, operating revenues rose by \$35.3 million, while operating expenses rose by \$20.8 million. The resulting gain in net operating revenue was partly offset, however, by a further increase of \$6.4 million in fixed charges. The outcome was a deficit of \$43.6 million, a reduction of \$8.0 million from 1958.

TRAFFIC AND REVENUES

Freight

3. Freight revenues in 1959 were \$28.0 million higher than in the previous year, and amounted to \$573.2 million. The increase was attributable to the interim freight rate increase authorized by the Board of Transport Commissioners on December 1, 1958, coupled with a slightly heavier volume of traffic. The average revenue per ton-mile increased from 1.554 cents in 1958 to 1.613 cents, largely as a result of the higher rates implemented during the year.

4. Revenue ton-miles, the principal measure of freight traffic handled, rose by 1.3% in 1959. Tonnage climbed from 79.5 million tons in 1958 to 82.0 million tons, and this increase more than offset a decline in the average length of haul from 441 to 432 miles.

5. The major increases in tonnage occurred in the movement of ores and concentrates, crude gypsum and other mine products, lumber, scrap iron and automobile parts. Decreases were registered mainly in grain and grain products, pulpwood, coal, cement, and manufactured iron and steel products.

6. The Board of Transport Commissioners, shortly after the interim freight rate increase of 17% was authorized, required the railways to specify before April 10, 1959, the amount of supplementary relief sought. Accordingly, the railways on that made formal application for a general rate increase of 12%. In the meantime, however, the Government had announced that no further general increases would be allowed for a period of one year as it intended to proceed with an inquiry into the railway rate structure and other matters affecting railway transportation. This announcement was followed by the appointment of a Royal Commission which is conducting hearings across Canada, receiving submissions from the railways and all interested parties.

7. On July 8, 1959, Parliament passed the Freight Rates Reduction Act. Designed as a relief measure for shippers, the Act provided a fund of \$20 million to permit a reduction in class rates and commodity rates (other than competitive rates) on Canadian railways for a period of one year. In compliance with the Act, the Board of Transport Commissioners ordered the substitution of an increase of 10% for the said permissive increase of 17%.

8. There were no general freight rate increases in the United States.

9. Prominent among the company's efforts to provide better service to shippers was an expansion of facilities for the handling of piggyback traffic. Between Montreal and Toronto, the number of trailer-carrying trains was doubled, thereby providing shippers with two convenient departure times from each terminal. In Western Canada, the C.N.R. extended piggyback service for commercial highway trailers to various new points between Winnipeg and Vancouver. The C.N.R. also began coast-to-coast transportation of vans carrying household goods.

10. Piggy-back service using company-owned trailers was expanded throughout Central Canada and the Maritime provinces, and specialized trailer equipment was made available for the transportation of perishable commodities.

11. A number of centrally-located railheads were established to take advantage of the growing integration of road and rail transportation. This step has made possible a reduction in the handling and transit time of less-than-carload traffic.

Passenger

12. Passenger revenues decreased from \$41.5 million in 1958 to \$40.2 million in 1959. This represents a drop of 3.2% which compares with a decrease of 11.4% between 1957 and 1958.

13. The number of passengers carried remained constant at 12.7 million, but a small increase in the average length of journey caused the number of passenger-miles to rise slightly. The effect of this increase on revenues was more than offset by a drop in the average revenue per passenger-mile from 3.27 cents to 3.16 cents. The decline in revenue per passenger-mile was the combined result of fare reductions and a shift in demand to coach class travel.

14. In April, 1959, the company introduced the Pay Later Plan, which was followed in the fall by two incentive fare plans, the Group-Economy Plan and the All-Inclusive Plan. Another innovation was the issue of a joint CNR-TCA credit card.

15. The Group Economy Plan offers substantial savings to coach class passengers travelling in groups of two or more, and is designed to compete with the cost of travel by automobile. The All-Inclusive Plan is intended to attract passengers to the trans-continental trains by offering a package combining fare, sleeping accommodation, meals and gratuities in one reduced price.

16. It is too early to measure accurately the public reaction to these travel incentives.

17. A change was made in the route of the "Continental" in order to provide better service on the North Battleford-Vermilion line. This train formerly operated via Biggar and Wainwright, points already served by the "Super Continental".

18. Improvements in passenger train schedules and service were also achieved through the substitution of "Railiners" for conventional trains in the Bruce Peninsula in Ontario and between The Pas and Flin Flon in Manitoba.

19. To attract the budget-conscious traveller, the company for the first time offered roomette accommodation and lounge facilities to Tourist Class passengers on the "Super Continental".

20. The success of cafeteria service has prompted the company to convert nine more conventional dining cars.

Express

21. Express revenues amounted to a record \$44.2 million, up \$2.2 million or 5.2% from 1958. The increase reflects an upward revision of certain specific rates and charges during the year.

22. There was a slight decrease in small package traffic, but in terms of tonnage volume remained at 1958 levels.

Communications

23. The year saw a rapid expansion of commercial communications facilities as the company attempted to keep abreast of the continuing growth in demand. The result was a new record in revenues, which rose 13.5% to \$27.2 million.

24. Construction work included the addition of some 22,000 miles of carrier telephone channels and 125,000 miles of carrier telegraph channels. A substantial portion of the new telegraph channels was assigned to the fast-growing "Telex" network, which was extended to twelve additional cities. By the end of the year, the number of "Telex" subscribers had grown to 2,800, an increase of 900 over 1958.

25. The television portion of a microwave network under construction between Sydney, N.S., and St. John's, Nfld., was completed, and the inaugural program, transmitted to the Canadian mainland, covered the arrival of Her Majesty the Queen at Torbay.

26. A start was made on an extension of the CN-CP microwave network from Rimouski to Mount Carleton and Moncton in order to provide another link in the eastern television system of the CBC. Construction work was also started on a communications network to serve Whitehorse, Dawson City, Mayo and Elsa in the Yukon Territory, and plans were completed for a similar network in the Northwest Territories.

27. A major contract was negotiated between the CNR and the Alaska Communication System, representing the Government of the United States, which provided for the construction of microwave communication facilities between Grande Prairie, Alta., and the Yukon-Alaska border. This network, to be owned and operated by CNR, will form the major section of a new communications link between the State of Alaska and the continental United States.

OPERATING EXPENSES

28. Operating expenses in 1959 totalled \$720.8 million.

29. In 1958, expenses of \$700.0 million included a non-recurring depreciation credit of \$7.5 million, which must be taken into account when comparing expenses between the two years. The comparison then shows 1959 expenses to be \$13.3 million higher than in the previous year.

30. Higher wages rates and extended fringe benefits added \$21.4 million to the company's 1959 expenses.

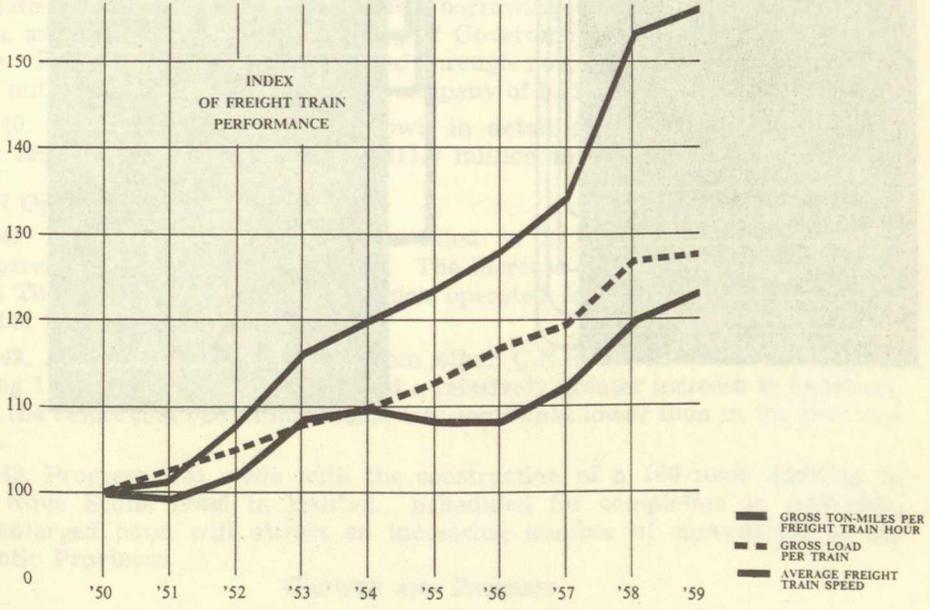
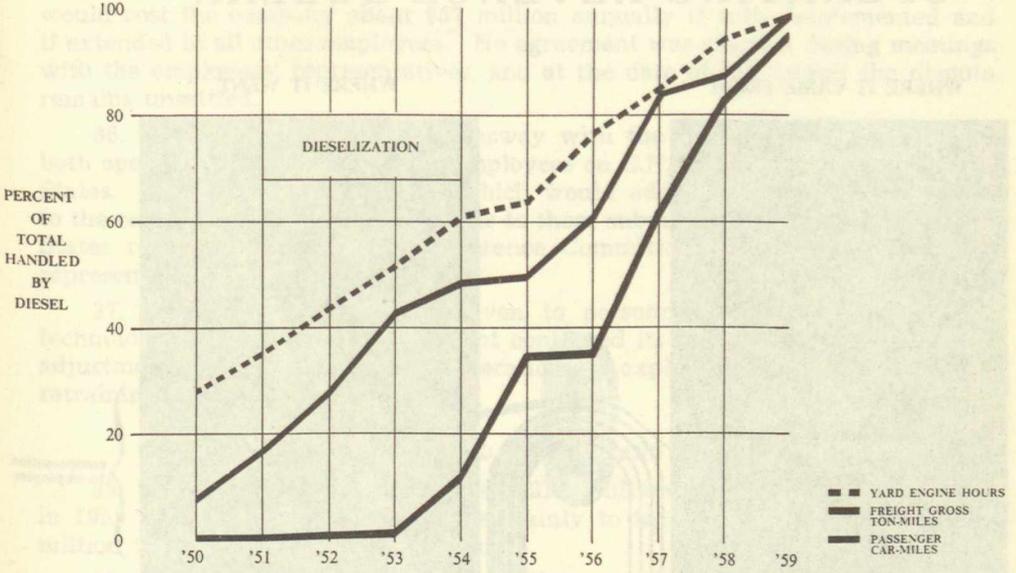
31. In the absence of the above two factors, 1959 expenses would have been \$8.1 million below those recorded in 1958. This constructive decrease in cost, which was achieved in the face of an increased work load, is illustrative of the real improvements that have been made in the company's operations.

Employee Compensation and Employee Relations

32. Employee compensation, representing wages, pensions and health and welfare benefits, amounted to \$464.9 million, 64.5% of total operating expenses. Compared with 1958, average hourly earnings per employee rose from \$1.798 to \$1.905.

33. The rise in wage costs can be traced both to the full-year effect of agreements reached in 1958 and to those signed in 1959. Of exceptional importance among the latter was the three-year agreement of April 30 with the Brotherhood of Locomotive Firemen and Enginemen, in which the Brotherhood recognized the right of the company to discontinue the hiring of new firemen-helpers for freight and yard service.

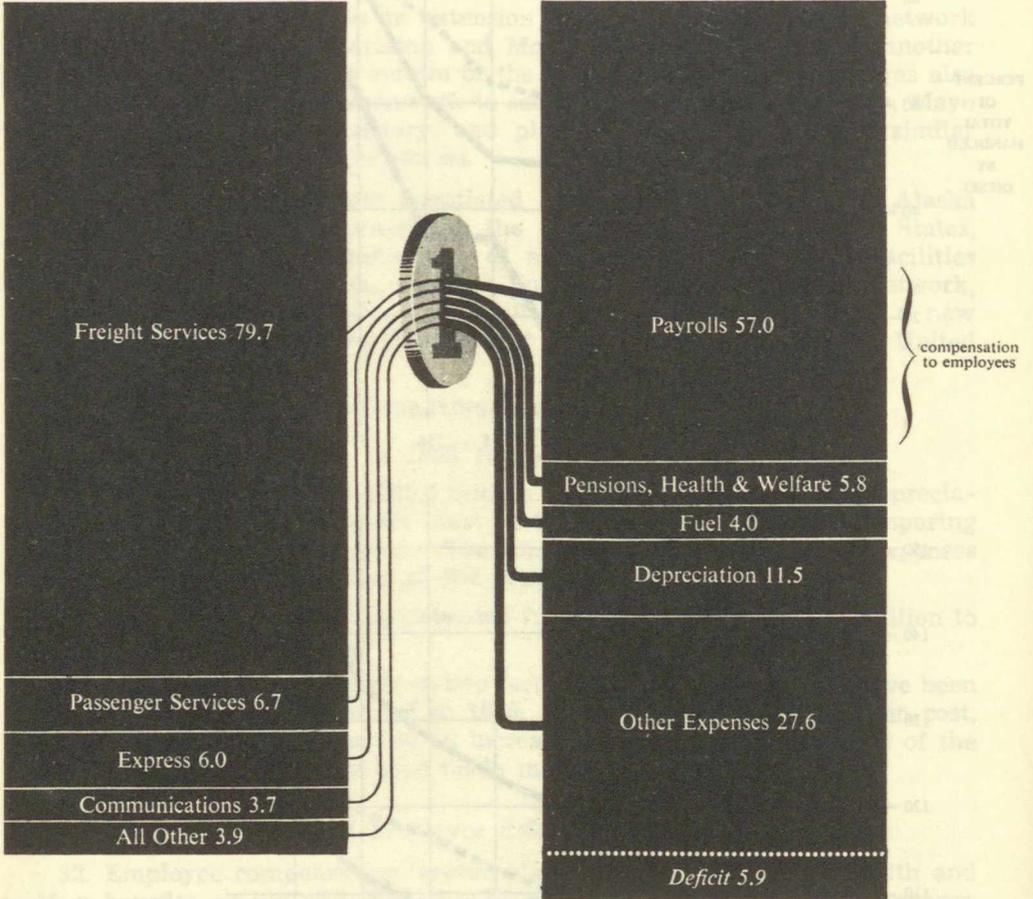
34. The agreement with the Brotherhood of Locomotive Firemen and Enginemen included a 9.5% increase in wages effective in several stages, improved vacations and statutory holidays, and increased payments in lieu of health and welfare coverage. Similar increases in wages and fringe benefits



OPERATING REVENUE DOLLAR

WHERE IT CAME FROM

WHERE IT WENT



were covered in three-year agreements with the Brotherhood of Locomotive Engineers and the Brotherhood of Railroad Trainmen.

35. On November 5, notice of proposed contract changes was received from the organizations representing non-operating employees on Canadian lines. The unions' requests, which include a wage increase of 7% plus 12½ cents per hour (a total of 25 cents per hour) and improved vacations, would cost the company about \$57 million annually if fully implemented and if extended to all other employees. No agreement was reached during meetings with the employees' representatives, and at the date of this report the dispute remains unsettled.

36. Negotiations were also underway with the organizations representing both operating and non-operating employees on C.N.R. properties in the United States. The employees' requests, which would add approximately \$6 million to the company's expenses, are similar to those submitted to other major United States railroads. A Carriers Conference Committee has been authorized to represent all railroads concerned.

37. Particular attention was given to personnel problems arising from technological change and management continued its endeavours to handle staff adjustments with the utmost consideration by exploring all opportunities for retraining or internal transfer.

TAXES, RENTS, AND FIXED CHARGES AND OTHER INCOME

38. Taxes and rents amounted to \$21.1 million, \$1.9 million higher than in 1958. The increase was traceable mainly to taxes, which climbed by \$1.5 million to a new high of \$18.9 million.

39. Fixed charges rose to \$52.9 million, up \$6.4 million from 1958. This increase was attributable in part to new borrowings to finance capital expenditures, and in part to the re-financing of Government loans at higher interest rates. Re-financing was accomplished through new issues of \$150 million and \$200 million, at an annual cost to the company of 5.22% and 5.96% respectively.

40. Other income, which is shown in detail on page 29 of the report, grew from \$9.2 million in 1958 to \$11.0 million in 1959.

Hotel Operations

41. Hotel operating income amounted to \$2.4 million before interest, compared with \$1.9 million last year. The increase was due to higher earnings from The Queen Elizabeth hotel, which operated for only eight and one-half months in 1958.

42. Although gross revenues from other C.N.R. hotels increased slightly during 1959, higher wage rates caused a relatively greater increase in expenses, with the result that operating income was somewhat lower than in the previous year.

43. Progress was made with the construction of a 160-room addition to The Nova Scotia hotel in Halifax. Scheduled for completion in mid-1960, the enlarged hotel will attract an increasing number of conventions to the Atlantic Provinces.

GROWTH AND PROGRESS

44. The railway continued to make a vigorous effort to win its fair share of an increasingly competitive transportation market.

45. Services were adjusted to meet the continuous changes in consumer demand. To discover and assess these changes the company carried out extensive market research studies, which have resulted not only in better service, but also in selective price reductions to stimulate traffic.

46. To reduce its expenses, the railway placed strong emphasis on its program of capital expenditures and on the improvement of work methods. Dieselization, hump yards, Centralized Traffic Control, integrated data processing, operational research and work study were but a few of the many measures being implemented to achieve a higher level of productivity.

Dieselization

47. The conversion of the System to complete dieselization progressed rapidly during 1959, and by year-end steam locomotives had been replaced completely except on the Manitoba and Saskatchewan Districts and on the Detroit Division of the Grand Trunk Western. Dieselization of the entire System will be accomplished during 1960.

48. With the addition of 290 units in 1959, diesels were handling by the end of the year 99% of all freight gross ton-miles, 99% of all yard engine hours, and 96% of all passenger car-miles.

49. In order to accommodate the growing fleet of diesels, work continued on the construction of repair facilities at key points across the System. Running repair shops at Edmonton and Senneterre were brought into operation, and the foundation work was completed for a similar shop to serve the new hump yard being built at Moncton. A running repair shop will also be established at the Symington hump yard under construction in Winnipeg.

50. Steps were taken for the establishment of a communications network for motive power control. This system, to be operated by a strategically-located control centre on each Canadian region, is designed to increase the utilization of locomotives.

Rolling Stock

51. Although 1,268 freight cars were placed in service, the retirement of 3,228 cars caused a significant drop in the company's inventory. This decrease was made possible by a continuing improvement in the efficiency of car use.

52. Among the new purchases were 200 heated box cars and 400 all-steel, all-welded flat cars for piggyback service. The heated box car, developed by CNR, does double duty as an ordinary box car in summer and as a car for perishable traffic in winter, while the highway-trailer flat cars incorporate improvements in design combining greater body strength with a decrease in weight.

New Lines

53. The eastern section of the Chibougamau branch line, from St. Felicien to Cache Lake, Que., a distance of 133 miles, was officially opened to traffic in October. The western section of this line, from Beattyville to Chibougamau, a distance of 161 miles, was completed in 1957. The line was constructed to open up undeveloped resources.

54. On the 52-mile line from Optic Lake to Chisel Lake, Man., track-laying and 75% of the first ballast lift were completed. The new line, which will serve the Hudson Bay Mining and Smelting Company development at Chisel Lake, is expected to be ready for operation in 1960.

55. A total of 334 industrial spurs and track extensions, representing 80 miles of new trackage, were built during the year, and 415 new industries were established on Canadian National lines.

Roadway

56. To maintain and improve its track structure, the company laid 781 track-miles of new rail and 307 track-miles of part-worn rail. In the Western

Region, the mainline improvement program was continued on schedule with the widening of embankments, improvement of drainage and ballast, and re-spacing of ties on a total of 325 miles of track.

57. In addition, sidings were extended on 10 more subdivisions to handle the longer trains made possible by dieselization.

58. To obtain higher productivity in roadway maintenance, mechanization continued with the purchase of 193 new units of machinery. Maintenance shops to service the increasing number of new roadway machines were established at Winnipeg, Edmonton, Saskatoon, Kamloops and Prince George.

Signals

59. Centralized Traffic Control, a system designed to improve the safety and average speed of train operation, was established on four more subdivisions. Long-range plans contemplate the installation of C.T.C. on some 40 subdivisions or 4,400 miles of mainline track.

Train Radio

60. Improvements in train operation will also result from the introduction of end-to-end and train-to-wayside radio communication. The first installations of such radio equipment were started in the territory between Edmonton, Vancouver and Prince George.

61. The company also installed two-way radio equipment in the Winnipeg Terminals area in order to improve communications between yardmasters and yard engine crews.

Yards and Terminals

62. Work advanced rapidly on the electronically-controlled hump yards under construction at Moncton, Montreal and Winnipeg. At Moncton, all grading and 70% of the track work was completed by the end of the year, while at Montreal all grading and drainage and 90% of the track work had been finished. At Winnipeg, where work was started later, grading and drainage were well underway and some track work was begun.

63. Planning proceeded for the construction of a new electronically-controlled hump yard to relieve the growing congestion of railway facilities in the Toronto area.

64. Yard improvements and extensions were completed during 1959 at Halifax, North Sydney, Campbellton, Joffre, Sarnia, Edmonton and Port Mann, as well as at Flint and Battle Creek on the Grand Trunk Western. Work continued on the yard improvement projects underway at St. John's and Corner Brook, Nfld.

Work Study and Integrated Data Processing

65. The railway intensified its efforts to raise productivity through the analysis of work methods and materials handling techniques. To co-ordinate this program in the various departments a special work study group was organized, which conducted intensive training courses throughout the year. The results to date have been most encouraging.

66. In the field of integrated data processing, attention was focused mainly on the development of a network for the transmission of waybill and train consist data between yard offices, and between yard offices and a central car record bureau. The result was that, by the end of the year, yard office and car tracing procedures were fully mechanized between Moncton, Joffre, Garneau, Montreal, Belleville and Toronto, and partially mechanized at Fort Erie and Sarnia.

67. The accelerated transmission of traffic data not only reduces yard delays by providing yard offices with advance notice of train consists, but also supplies the central car record bureau with up-to-the-minute information about the location of all cars on line. These two advantages have already made possible a decided improvement in service to shippers.

69. The railway carried out a wide range of studies to better its methods forward with the systematic application of integrated data processing techniques to the production of financial and statistical data.

Research and Experimentation

69. The railway carried out a wide range of studies to better its methods and the quality of its plant. Among the most important of these projects were: analyses of rail defects and their relationship to manufacturing techniques and of car axle defects and their effect on safety of operation; development of new brake cylinder lubricants and train line gaskets to improve train operations in winter; evaluations of new, low-cost diesel engine fuels; and the development of a method of collecting stress-strain data on freight car roller bearings under actual operating conditions. Results from the latter study will be used to assess current roller bearing designs.

70. Engineering studies have led to the adoption of high tensile, low alloy steel in the construction of flat cars, with the result that greater strength and weight savings of up to 40% of car body weight were achieved at no additional cost. Similar weight savings will be obtained in an experimental all-aluminum covered-hopper car, of which two prototypes were on tender at year-end.

71. With the assistance of operational research a new method was developed for simulating on a digital computer the operation of trains on a single track line under Centralized Traffic Control. This procedure is being applied to subdivisions scheduled for the installation of C.T.C. in order to determine the most efficient layout of sidings and signals.

GENERAL

Royal Visit

72. In June and July, Her Majesty the Queen and His Royal Highness the Duke of Edinburgh travelled across Canada from coast to coast. One of the highlights of the tour was the official opening of the St. Lawrence Seaway by the Queen and President Eisenhower.

73. During their visit, the Royal Party travelled 1,500 miles over CNR lines, which enabled Her Majesty and Prince Philip to visit dozens of communities served by Canadian National.

St. Lawrence Seaway Project

74. The new highway approaches to the Victoria Bridge in Montreal and the two liftspans over the Seaway locks were completed on schedule for the opening of the Seaway. The rail diversion being constructed around the St. Lambert lock was extended to the junction point with the existing bridge. This project, which will permit an uninterrupted flow of traffic over the Seaway, is expected to be completed before the start of navigation in 1961.

Following an intensive survey of the travelling habits of Canadians, the Group Economy Plan and the All-Inclusive Plan were

Co-operation under the Canadian National-Canadian Pacific Act
75. Although the subject of further co-operative measures is under continuing review by the management of both railways, no changes were made in pool service or other existing arrangements.

Reorganization

76. The railway carried out a general evaluation of its whole organizational structure. By the end of the year, the desirability of

a broad decentralization of authority and responsibility on a geographical—as distinct from the present departmental—basis had been agreed upon by management, and further detailed studies of the form of the proposed organization and the method of achieving it were commenced.

THE YEAR IN PERSPECTIVE

77. The financial results for 1959 were most disappointing, particularly when considered in relation to the record level reached by the Gross National Product. The fact that the revenues of the Canadian National and indeed of the railway industry in general did not reflect more closely this buoyancy in the economy brings into sharp focus the serious challenge facing management.

78. While the year's revenue exceeded that of the previous year, the change was due almost entirely to higher freight rates. Some increase was shown in volume but the Canadian railways' share of the total transportation market continues to decline. To meet the changing requirements of the transportation market, the company made significant advances in highway and rail integration and while this service feature holds promise for the future, it was not of sufficient scale in 1959 to affect the net position.

79. Substantial capital investment continued during the year in order to modernize the plant and to achieve those economies which would help keep expenses consistent with the revenue level. The rise in wages and material prices, however, has consumed not only those gains in productivity which were attributable to the capital works program but also has cut deeply into the effective yield of freight rate increases.

80. An increase in fixed charges reflected the extent of the necessary capital expenditures in recent years and also the sharp increase in the cost of money. Higher interest rates create a particularly heavy burden to a company having limited sources of equity capital. Since the Capital Revision Act became effective in 1952, approximately 68% of the company's capital requirements were financed through borrowing. Certain provisions of this Act will expire at the end of 1960 and the problems associated with future financing are receiving careful analysis.

81. All of the above factors are indicative of the complex and imposing task ahead. Some of the problems are beyond the control of management, particularly those related to freight rates and a Royal Commission appointed by the Government of Canada is now inquiring into this and other aspects of railway transportation.

82. The company, for its part, is striving to adjust its facilities, services and pricing methods to present day market requirements. It is vital, however, that the railways be able to count upon the understanding and support of all elements of the community if they are to continue to fulfill their dynamic and important role in the growth of the Canadian economy.

introduced in 1959. They are designed to attract travellers back to the railways by offering cheaper fares and including the cost of transportation, berths, meals and tips in an all-inclusive price.

At the end of 1959, almost 30,000 CNR-TCA Credit Cards were in circulation. The first rail-air credit card in the world, it includes rail, sleeping and dining car, telegraph express and CN hotels services, accommodation on TCA domestic and international flights, rooms in any Hilton-Statler hotel and the services of Avis, Hertz and Tilden car rental agencies.

The "Go-CNR Now—Pay Later" Plan offers "time-payment" terms to rail and steamships passengers on the basis of 10 per cent down with the balance payable within 24 months. Sleeping car space, meals and hotel accommodations may be included, as well as basic transportation.

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1599

| ASSETS | | LIABILITIES | |
|--|-------------------------------|--|-------------------------------|
| Current Assets | | Current Liabilities | |
| Cash..... | \$ 18,906,089 | Accounts payable..... | \$ 77,060,328 |
| Accounts receivable..... | 66,325,346 | Accrued charges..... | 24,609,130 |
| Material and supplies..... | 90,553,557 | Other current liabilities..... | 1,989,669 |
| Other current assets..... | 13,070,791 | | <u>\$ 103,659,127</u> |
| Government of Canada—Due on deficit account..... | 6,588,290 | Provision for Insurance..... | 15,000,000 |
| | <u>\$ 195,444,073</u> | Other Liabilities and Deferred Credits..... | 25,597,459 |
| Insurance Fund..... | 15,000,000 | Long Term Debt | |
| Investments in Affiliated Companies not Consolidated..... | 187,138,888 | Bonds, debentures and equipment obliga- tions..... | 1,341,058,970 |
| Property Investment | | Government of Canada loans and deben- tures..... | 345,684,052 |
| Road..... | 2,222,676,776 | | <u>1,686,743,022</u> |
| Equipment..... | 1,387,282,731 | | |
| Other physical properties..... | 99,119,545 | | |
| | <u>3,709,079,052</u> | | |
| Less recorded depreciation..... | 605,939,177 | | |
| | <u>3,103,139,875</u> | | |
| Other Assets and Deferred Charges | | | |
| Other investments..... | 1,670,083 | | |
| Prepayments..... | 2,758,241 | | |
| Unamortized discount on long term debt. | 20,255,921 | | |
| Other assets..... | 20,439,690 | | |
| Deferred charges..... | 13,566,108 | | |
| | <u>58,690,043</u> | | |
| | <u><u>\$3,559,412,879</u></u> | | |
| | | SHAREHOLDERS' EQUITY | |
| | | Government of Canada | |
| | | 6,000,000 shares of no par value capital stock of Canadian National Railway Company..... | 386,614,985 |
| | | 904,489,263 shares of 4% preferred stock of Canadian National Railway Company..... | 904,489,263 |
| | | Capital investment of Government of Canada in the Canadian Government Railways..... | 432,805,474 |
| | | | <u>1,723,909,722</u> |
| | | Capital Stock of Subsidiary Companies Owned by Public..... | 4,503,549 |
| | | | <u>1,728,413,271</u> |
| | | | <u><u>\$3,559,412,879</u></u> |

The notes appearing on page 238 are an integral part of this Balance Sheet.

L. J. MILLS,
Comptroller.

AUDITOR'S REPORT

To The Honourable The Minister of Transport,
Ottawa, Canada.

I have examined the consolidated balance sheet of the Canadian National Railway System as at December 31, 1959 and the consolidated income statement for the year ended on that date. My examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances.

In my opinion, subject to the position with regard to depreciation accruing prior to the adoption of depreciation accounting as referred to in Note 1, the above consolidated balance sheet and the related consolidated income statement are properly drawn up, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, so as to give a true and fair view of the state of the affairs of the System at December 31, 1959 and of the results of its operations for the year ended on that date, according to the best of my information and the explanations given to me and as shown by the books of the System.

I further report that, in my opinion, proper books of account have been kept by the System and the transactions that have come under my notice have been within the powers of the System.

February 26, 1960.

J. A. DE LALANNE,
Chartered Accountant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AT DECEMBER 31, 1959*Note 1. Property Investment:*

Additions since January 1, 1923, have been recorded at cost and properties and equipment brought into the System at January 1, 1923, are included at the values appearing in the books of the several railways now comprising the System to the extent that these have not been retired or replaced.

Depreciation on Canadian Lines: Depreciation accounting as adopted for equipment in 1940, for hotel properties in 1954 and for track and road structures and all other physical properties except land in 1956 has been continued in 1959. The depreciation rates used are based on the estimated service life of the properties but do not provide for depreciation which was not recorded in prior years under the replacement and retirement accounting principles then in force, nor for extraordinary obsolescence resulting from the introduction of more efficient equipment. Consistent with the policy adopted in the year 1958, capital losses of \$2,903,150 sustained in 1959 on the early retirement of steam locomotives have been charged against Shareholders' Equity. The total of such losses charged to Shareholders' Equity up to December 31, 1959 amounted to \$9,903,150.

Depreciation on U.S. Lines: Replacement accounting for track and depreciation accounting for equipment and other physical property except land has been continued in accordance with the regulations of the Interstate Commerce Commission.

Note 2. Material and Supplies:

The inventory has been priced at laid down cost based on weighted average cost for ties, rails, and fuel and latest invoice price for new materials in general stores, and at estimated utility or sales value for usable second hand, obsolete and scrap materials.

Note 3. Capital Stock:

The capital stock of the Canadian National Railway Company (other than the four per cent preferred stock) and the capital investment of Her Majesty in the Canadian Government Railways are included in the net debt of Canada and disclosed in the historical record of government assistance to railways as shown in the Public Accounts of Canada.

Note 4. Pensions:

At December 31, 1959, an amount of \$229,890,244 had been accumulated in the Pension Trust Fund in respect of pension liabilities. This amount represents provision for pensions in force under the 1935, 1952 and 1959 plans, but not for pensions granted under prior plans. Consistent with its established practice the railway has made no transfer or allocation of funds for pensions conditionally accruing in respect of employees now in service.

Note 5. Major Commitments:

(a) Chicago & Western Indiana Railroad Company:

Pursuant to a joint supplemental lease dated May 1, 1952, the Grand Trunk Western Railroad Company and four other proprietary-tenant companies are obligated to pay, as rental, sinking fund payments sufficient to retire bonds at maturity and interest as it falls due with respect to First Collateral Trust Mortgage 4 $\frac{3}{8}$ % Sinking Fund Bonds Series "A" due May 1, 1982. The Grand Trunk Western's proportion is one-fifth in the absence of

default of any of the other tenant companies. The bonds outstanding at December 31, 1959 total \$53,350,000.

(b) Detroit & Toledo Shore Line Railroad Company:

The Grand Trunk Western Railroad Company is jointly and severally liable as guarantor of principal, interest and sinking fund payments with respect to \$2,713,000 First Mortgage 3¼%-30 year Series "A" Bonds, due December 1, 1982, of the Detroit & Toledo Shore Line Railroad Company.

CONSOLIDATED INCOME STATEMENT

| | 1959 | 1958 |
|---|---------------|---------------|
| RAILWAY OPERATING REVENUES | | |
| Freight services | \$589,567,242 | \$560,265,237 |
| Passenger services | 49,954,770 | 50,493,785 |
| Express | 44,939,513 | 42,610,340 |
| Communications | 27,195,071 | 23,962,528 |
| All other | 28,508,445 | 27,615,520 |
| Total operating revenues | 740,165,041 | 704,947,410 |
| RAILWAY OPERATING EXPENSES | | |
| Road maintenance | 163,766,953 | 157,280,243 |
| Equipment maintenance | 154,612,382 | 145,971,081 |
| Traffic | 15,633,771 | 14,773,879 |
| Transportation | 322,251,617 | 319,380,898 |
| Miscellaneous operations | 6,083,149 | 5,936,138 |
| General | 58,474,466 | 56,679,260 |
| Total operating expenses | 720,822,338 | 700,021,499 |
| Net revenue from railway operations | 19,342,703 | 4,925,911 |
| TAXES AND RENTS | | |
| Railway tax accruals | 18,945,938 | 17,466,769 |
| Equipment rents—Net debit | 2,126,924 | 1,634,395 |
| Joint facility rents—Net credit or debit | 42,940 | 89,202 |
| Total taxes and rents | 21,029,922 | 19,190,366 |
| Net railway operating deficit | 1,687,219 | 14,264,455 |
| OTHER INCOME | | |
| Income from lease of road | 43,398 | 45,351 |
| Miscellaneous rents (net) | 1,600,949 | 1,432,538 |
| Income from non-transportation properties | 1,425,791 | 1,261,124 |
| Hotel income | 2,428,435 | 1,895,447 |
| Dividend income | 233,866 | 194,892 |
| Interest income | 4,695,540 | 3,687,046 |
| Miscellaneous—Net debit or credit | 324,523 | 968,162 |
| Profit and loss—Net credit or debit | 914,359 | 290,293 |
| Total other income | 11,017,815 | 9,194,267 |
| Surplus or deficit before fixed charges | 9,330,596 | 5,070,188 |
| FIXED CHARGES | | |
| Rent for leased roads | 133,619 | 133,667 |
| Interest on bonds, debentures and equipment obligations | 38,691,827 | 33,872,693 |
| Interest on government loans | 12,533,180 | 11,097,583 |
| Interest on other debt | 272,618 | 345,388 |
| Amortization of discount on bonds | 1,287,642 | 1,071,905 |
| Total fixed charges | 52,918,886 | 46,521,236 |
| Deficit | \$ 43,588,290 | \$ 51,591,424 |

OPERATING REVENUES

| | 1959 | 1958 |
|---|---------------|---------------|
| Freight Services | | |
| Freight..... | \$573,242,412 | \$545,230,647 |
| Switching..... | 5,863,492 | 5,628,254 |
| Cartage and transport..... | 3,857,000 | 3,924,527 |
| Demurrage..... | 2,295,100 | 2,157,349 |
| Water transfers..... | 2,292,895 | 1,569,081 |
| Grain elevator..... | 1,062,128 | 905,893 |
| Wharves..... | 703,555 | 623,803 |
| Storage..... | 250,660 | 225,683 |
| Total..... | 589,567,242 | 560,265,237 |
| Passenger Services | | |
| Passenger..... | 40,181,378 | 41,492,781 |
| Sleeping and parlor car..... | 4,874,910 | 4,290,958 |
| Dining and buffet car..... | 3,443,490 | 3,401,765 |
| Water transfers..... | 651,199 | 524,769 |
| Station, train and boat privileges..... | 442,406 | 432,599 |
| Restaurants..... | 164,481 | 120,831 |
| Baggage transportation and storage..... | 182,820 | 213,901 |
| Miscellaneous..... | 14,086 | 16,181 |
| Total..... | 49,954,770 | 50,493,785 |

| | 1959 | 1958 |
|--|---------------|---------------|
| Express | | |
| Express department..... | \$ 44,190,417 | \$ 42,006,646 |
| Railway Express Agency..... | 749,096 | 603,694 |
| Total..... | 44,939,513 | 42,610,340 |
| Communications | | |
| Communications department..... | 27,189,000 | 23,954,032 |
| Commissions—U.S..... | 6,071 | 8,496 |
| Total..... | 27,195,071 | 23,962,528 |
| All Other | | |
| Mail..... | 12,240,264 | 10,378,342 |
| Rents of buildings and other property..... | 1,682,857 | 1,731,756 |
| Joint facilities..... | 267,076 | 353,901 |
| Miscellaneous..... | 14,318,248 | 15,151,521 |
| Total..... | 28,508,445 | 27,615,520 |
| Total Operating Revenues..... | \$740,165,041 | \$704,947,410 |

OPERATING EXPENSES

| | 1959 | 1958 |
|------------------------------------|---------------|---------------|
| ROAD MAINTENANCE | | |
| Superintendence..... | \$ 12,246,688 | \$ 11,642,469 |
| Track and Roadway | | |
| Track and roadway maintenance..... | 48,649,915 | 47,297,331 |
| Ties..... | 925,677 | 778,289 |
| Rails..... | 1,142,530 | 2,875,275 |
| Other track material..... | 3,385,052 | 4,606,906 |
| Ballast..... | 370,307 | 189,703 |
| Fences, snowsheds and signs..... | 1,691,800 | 1,653,757 |
| Small tools and supplies..... | 2,623,765 | 2,538,593 |
| Removing snow, ice and sand..... | 6,907,701 | 5,723,758 |
| Total..... | 65,696,747 | 65,663,612 |

| | 1959 | 1958 |
|--------------------------------------|--------------|--------------|
| EQUIPMENT MAINTENANCE | | |
| Superintendence..... | \$ 5,135,285 | \$ 4,784,461 |
| Machinery | | |
| Shop and power plant machinery..... | 4,506,135 | 4,326,327 |
| Equipment | | |
| Steam locomotives..... | 1,464,394 | 11,661,212 |
| Diesel locomotives..... | 26,289,161 | 21,217,898 |
| Freight train cars..... | 43,458,028 | 41,081,683 |
| Passenger train cars..... | 18,432,169 | 19,294,237 |
| Vessels..... | 1,977,502 | 1,671,578 |
| Work equipment..... | 4,506,248 | 4,288,496 |
| Express equipment..... | 810,309 | 851,677 |
| Cartage and transport equipment..... | 572,803 | 575,027 |
| Other equipment..... | 87,010 | 53,371 |
| Total..... | 97,597,624 | 100,695,149 |

| Bridges and Structures | | |
|------------------------------------|-------------------|-------------------|
| Tunnels, bridges and culverts..... | 6,047,873 | 6,346,991 |
| Station and office buildings..... | 6,577,491 | 6,393,992 |
| Roadway buildings..... | 1,096,461 | 1,085,156 |
| Water and fuel stations..... | 709,775 | 918,339 |
| Shops and enginehouses..... | 3,672,680 | 3,821,396 |
| Grain elevators..... | 56,343 | 76,040 |
| Wharves..... | 686,239 | 353,818 |
| Power plant systems..... | 501,764 | 572,496 |
| Other structures..... | 28,917 | 66,100 |
| Total..... | 19,377,543 | 19,634,328 |

| Communication and Signal Systems | | |
|----------------------------------|-------------------|-------------------|
| Communication systems..... | 13,645,625 | 11,498,079 |
| Signals..... | 3,484,977 | 3,007,752 |
| Total..... | 17,130,602 | 14,505,831 |

| Miscellaneous | | |
|----------------------------|------------------|------------------|
| Roadway machines..... | 4,177,154 | 4,053,986 |
| Public improvements..... | 1,104,199 | 980,156 |
| Injuries to persons..... | 1,233,964 | 985,625 |
| Insurance..... | 85,173 | 100,140 |
| Stationery..... | 227,073 | 182,345 |
| Other expenses..... | 1,650,865 | 1,481,906 |
| Right-of-way expenses..... | 105,737 | 84,027 |
| Total..... | 8,584,165 | 7,868,185 |

| Depreciation and Retirements | | |
|--|-------------------|-------------------|
| Road property depreciation..... | 40,703,298 | 38,055,747 |
| Road property retirements..... | 309,203 | 69,646 |
| Dismantling retired road property..... | 859,875 | 532,009 |
| Total..... | 41,872,376 | 38,657,402 |

| Joint Facilities | | |
|---|----------------------|----------------------|
| Maintaining joint facilities— <i>Net Credit</i> | 1,141,168 | 691,584 |
| Total Road Maintenance..... | \$163,766,953 | \$157,280,243 |

| Miscellaneous | | |
|--------------------------|------------------|------------------|
| Injuries to persons..... | 887,627 | 765,236 |
| Insurance..... | 307,286 | 271,254 |
| Stationery..... | 159,348 | 158,045 |
| Other expenses..... | 1,435,365 | 1,478,306 |
| Total..... | 2,839,626 | 2,672,841 |

| Depreciation and Retirements | | |
|---|-------------------|-------------------|
| Other equipment and machinery depreciation..... | 1,829,542 | 1,538,372 |
| Dismantling retired machinery..... | 28,293 | 28,507 |
| Dismantling retired equipment..... | 345,734 | 429,773 |
| Rolling stock and vessels depreciation..... | 42,486,914 | 39,121,392 |
| Supplementary dep'n.—steam locomotives..... | — | 7,500,000 |
| Total..... | 44,690,483 | 33,618,044 |

| Joint Facilities | | |
|---|----------------------|----------------------|
| Maintaining joint facilities— <i>Net Credit</i> | 156,771 | 125,741 |
| Total Equipment Maintenance..... | \$154,612,382 | \$145,971,081 |

TRAFFIC

| | | |
|--|---------------------|----------------------|
| Superintendence..... | \$ 5,636,562 | \$ 5,198,919 |
| Agencies..... | 5,749,906 | 5,463,867 |
| Advertising..... | 2,028,771 | 1,955,534 |
| Associations..... | 356,865 | 298,228 |
| Stationery..... | 819,560 | 865,018 |
| Other expenses..... | 177,519 | 146,541 |
| Total..... | 14,769,183 | 13,928,107 |
| Colonization and agriculture..... | 333,923 | 333,032 |
| Industrial development..... | 364,494 | 340,974 |
| Development and natural resources..... | 166,171 | 171,766 |
| Total Traffic..... | \$15,633,771 | \$ 14,773,879 |

TRANSPORTATION

| | | |
|----------------------|-------------------|-------------------|
| Supervision | | |
| Superintendence..... | \$ 9,609,048 | \$ 9,265,234 |
| Dispatching..... | 4,816,468 | 4,636,460 |
| Total..... | 14,425,516 | 13,901,694 |

OPERATING EXPENSES (Continued)

| | 1959 | 1958 |
|---|--------------------|--------------------|
| <i>TRANSPORTATION—Continued</i> | | |
| Station Services | | |
| Station employees..... | 46,833,991 | 46,347,989 |
| Weighing, inspection and demurrage..... | 219,091 | 220,251 |
| Coal and ore wharves..... | 148,760 | 86,682 |
| Station expenses..... | 4,449,767 | 4,413,129 |
| Total..... | 51,651,609 | 51,068,051 |
| Yard Services | | |
| Yardmasters and clerks..... | 11,740,074 | 11,464,234 |
| Yard trainmen..... | 21,633,346 | 20,403,589 |
| Yard switchmen..... | 1,676,484 | 1,793,613 |
| Yard enginemen..... | 14,475,147 | 13,987,281 |
| Yard locomotive fuel and power..... | 2,393,553 | 3,040,274 |
| Yard locomotive water..... | 38,340 | 73,337 |
| Yard locomotive other supplies..... | 335,156 | 327,850 |
| Yard enginehouse expenses..... | 2,859,991 | 3,112,945 |
| Yard other expenses..... | 544,691 | 441,904 |
| Total..... | 55,696,782 | 54,645,027 |
| Train Operations | | |
| Train enginemen..... | 26,417,623 | 25,765,154 |
| Train locomotive fuel and power..... | 27,447,276 | 30,208,805 |
| Train locomotive water..... | 672,163 | 875,277 |
| Train locomotive other supplies..... | 1,720,582 | 1,827,960 |
| Train enginehouse expenses..... | 9,465,974 | 10,872,827 |
| Trainmen..... | 31,948,019 | 30,628,973 |
| Train other expenses..... | 25,380,674 | 23,942,841 |
| Operating sleeping and parlor cars..... | 5,091,265 | 5,298,689 |
| Total..... | 128,143,576 | 129,420,526 |
| Miscellaneous | | |
| Signal operation..... | \$ 875,576 | \$ 888,976 |
| Crossing protection..... | 1,818,457 | 1,850,341 |
| Drawbridge operation..... | 452,395 | 432,542 |
| Communication system operation..... | 14,117,551 | 14,203,046 |
| Operating vessels..... | 11,280,646 | 10,513,989 |
| Express department operation..... | 30,603,346 | 28,833,772 |
| Cartage and transport operation..... | 2,766,281 | 2,983,287 |
| Stationery..... | 1,552,917 | 1,579,995 |
| Other expenses..... | 2,014,101 | 2,053,945 |
| Total..... | 65,481,270 | 63,339,893 |

| | 1959 | 1958 |
|--|----------------------|----------------------|
| <i>TRANSPORTATION—Concluded</i> | | |
| Casualty Costs | | |
| Insurance..... | 60,402 | 104,312 |
| Clearing wrecks..... | 1,040,999 | 817,442 |
| Damage to property..... | 257,030 | 328,385 |
| Loss and damage—freight..... | 4,277,176 | 4,242,060 |
| Loss and damage—baggage..... | 10,319 | 9,736 |
| Injuries to persons..... | 2,072,382 | 2,448,307 |
| Total..... | 7,718,308 | 7,950,242 |
| Joint Facilities | | |
| Operating joint yards & terminals— <i>Net Credit</i> | 253,017 | 284,595 |
| Operating joint facilities— <i>Net Credit</i> | 612,427 | 659,940 |
| Total..... | 865,444 | 944,535 |
| Total Transportation..... | \$322,251,617 | \$319,380,898 |
| <i>MISCELLANEOUS OPERATIONS</i> | | |
| Dining and buffet service..... | \$ 5,012,802 | \$ 4,934,043 |
| Restaurants..... | 164,649 | 126,839 |
| Grain elevators..... | 333,381 | 320,865 |
| Other operations..... | 572,317 | 554,391 |
| Total Miscellaneous Operations..... | \$ 6,083,149 | \$ 5,936,138 |
| <i>GENERAL</i> | | |
| General officers..... | \$ 1,349,938 | \$ 1,206,027 |
| Clerks and attendants..... | 15,402,110 | 14,256,484 |
| Office expenses..... | 1,927,870 | 1,518,429 |
| Law expenses..... | 929,142 | 781,458 |
| Pensions..... | 36,500,000 | 36,500,000 |
| Stationery..... | 796,341 | 871,728 |
| Valuation expenses—U.S. Lines..... | 16,578 | 14,395 |
| Other expenses..... | 1,417,541 | 1,407,197 |
| General joint facilities— <i>Net Debit</i> | 134,946 | 123,542 |
| Total General..... | \$ 58,474,466 | \$ 56,679,260 |

PROPERTY INVESTMENT STATEMENT

| | | | |
|---|---------------|-------------|-----------------|
| Property Investment at December 31, 1958..... | | | \$3,548,330,290 |
| Capital Expenditures in 1959..... | | | |
| Roadway improvements..... | \$ 55,879,132 | | |
| Large terminals..... | 23,830,649 | | |
| Communications facilities..... | 15,516,786 | | |
| Roadway buildings..... | 12,178,537 | | |
| Yard tracks and sidings..... | 3,375,887 | | |
| Roadway and shop machinery..... | 3,268,659 | | |
| Signals..... | 4,378,989 | | |
| Highway crossing protection..... | 765,997 | | |
| Line diversions..... | 4,318,192 | | |
| Other facilities..... | 1,039,518 | | |
| | | 124,552,346 | |
| Branch Lines..... | 7,447,380 | | |
| Hotels..... | 3,054,231 | | |
| Equipment..... | 87,015,993 | | |
| | | | \$222,069,950 |
| Deduction in respect of property retirements in 1959..... | | | 61,577,523 |
| | | | 160,492,427 |
| Government of Canada expenditure on Canadian Government Railways... | | | 256,335 |
| | | | 160,748,762 |
| Property Investment at December 31, 1959..... | | | \$3,709,079,052 |

RECORDED DEPRECIATION STATEMENT

| | | | |
|--|---------------|---------------|----------------|
| Recorded Depreciation at December 31, 1958..... | | | \$ 559,499,403 |
| Add—Provision for depreciation for the year | | | |
| Road Maintenance | | | |
| Road property depreciation..... | \$ 40,703,298 | | |
| Equipment Maintenance | | | |
| Rolling stock and vessels depreciation..... | 42,486,914 | | |
| Other equipment and machinery depreciation..... | 1,829,542 | | |
| Other Physical Properties..... | 1,290,897 | | |
| | | \$ 86,310,651 | |
| Deduct—Charges in respect of property retirements..... | 42,774,027 | | |
| Less—Capital losses charged to Shareholders' | | | |
| Equity—steam locomotives..... | 2,903,150 | | |
| | | 39,870,877 | |
| | | | 46,439,774 |
| Recorded Depreciation at December 31, 1959..... | | | \$ 605,939,177 |

OPERATING EXPENSES
(Continued)

LONG TERM DEBT

BONDS, DEBENTURES AND EQUIPMENT OBLIGATIONS

| Rate | Maturity (See Note) | | Currency in which payable | Outstanding at Dec. 31, 1958 | Transactions Year 1959 Increase or Decrease | Outstanding at Dec. 31, 1959 |
|---|------------------------|--|---------------------------------|------------------------------------|--|------------------------------------|
| | | | | \$ | \$ | \$ |
| 3 | Jan. 15, 1959 | Canadian National 20 Year Bonds..... | Canadian | 35,000,000 | 35,000,000 | |
| 3½ | May 4, 1960 | Canadian Northern Alberta Debenture Stock..... | Sterling | 550,727 | | 550,727 |
| 3½ | May 19, 1961 | Canadian Northern Ontario Debenture Stock..... | Sterling | 3,597,518 | | 3,597,518 |
| 3 | Jan. 1, 1962 | Grand Trunk Pacific Bonds..... | Can.-U.S.-Stg. | 26,465,130 | | 26,465,130 |
| 4 | Jan. 1, 1962 | Grand Trunk Pacific Bonds..... | Can.-U.S.-Stg. | 7,999,074 | | 7,999,074 |
| 2½ | Feb. 1, 1963(a) | Canadian National 8 Year 1½ Month Bonds..... | Canadian | 250,000,000 | | 250,000,000 |
| 5½ | Dec. 15, 1964(h) | Canadian National 5 Year Bonds..... | Canadian | | 200,000,000 | 200,000,000 |
| 3 | Jan. 3, 1966(b) | Canadian National 17 Year Bonds..... | Canadian | 35,000,000 | | 35,000,000 |
| 2¾ | Jan. 2, 1967(c) | Canadian National 20 Year Bonds..... | Canadian | 50,000,00 | | 50,000,000 |
| 5 | May 15, 1968(h) | Canadian National 9 Year Bonds..... | Canadian | | 57,600,000 | 57,600,000 |
| 2½ | Sept. 15, 1969(d) | Canadian National 20 Year Bonds..... | Canadian | 70,000,000 | | 70,000,000 |
| 2½ | Jan. 16, 1971(e) | Canadian National 21 Year Bonds..... | Canadian | 40,000,000 | | 40,000,000 |
| 3½ | Feb. 1, 1974(f) | Canadian National 20 Year Bonds..... | Canadian | 200,000,000 | | 200,000,000 |
| 2¼ | June 15, 1975(g) | Canadian National 25 Year Bonds..... | U.S. | 6,000,000 | | 6,000,000 |
| 5 | May 15, 1977(h) | Canadian National 18 Years Bonds..... | Canadian | | 88,200,000 | 88,200,000 |
| 4 | Feb. 1, 1981 | Canadian National 23 Year Bonds..... | Canadian | 300,000,000 | | 300,000,000 |
| 4½ | Sept. 15, 1979 | Grand Trunk Western Note..... | Can.-U.S. | 400,000 | | 400,000 |
| 5½ | Perpetual | Buffalo and Lake Huron 1st Mortgage Bonds..... | Sterling | 795,366 | | 795,366 |
| 5½ | Perpetual | Buffalo and Lake Huron 2nd Mortgage Bonds..... | Sterling | 1,228,399 | | 1,228,399 |
| 5 | Perpetual | Debenture Stocks—Various..... | Sterling | 88,972 | | 88,972 |
| 4 | Perpetual | Debenture Stocks—Various..... | Sterling | 8,784 | | 8,784 |
| 2½ | Mar. 15, 1960 | Equipment Trust Certificates—Series "U"..... | Canadian | 3,300,000 | 2,200,000 | 1,100,000 |
| 2½ | Jan. 15, 1961 | Equipment Trust Certificates—Series "V"..... | Canadian | 3,375,000 | 1,350,000 | 2,025,000 |
| Total Bonds, Debentures and Equipment Obligations(i)..... | | | | 1,033,808,970 | 307,250,000 | 1,341,058,970 |

GOVERNMENT OF CANADA LOANS AND DEBENTURES
Capital Revision Act Jan. 1, 1972
Debenture.....

Canadian Government Railways
Advances for Working Capital.....

Financing and Guarantee Acts
Temporary Loans.....

Refunding Act, 1955
Loans for Debt Redemption.....

Total Government of Canada Loans and Debentures(i).....

Total Long Term Debt.....

| | | | |
|----------|-------------------|-------------|-----------------|
| Canadian | 100,000,000 | | 100,000,000 |
| Canadian | 16,988,091 | 4,329 | 16,983,762 |
| Canadian | 284,796,722 | 96,101,455 | 188,695,267 |
| Canadian | 83,006,886 | 43,001,863 | 40,005,023 |
| | 484,791,699 | 139,107,647 | 345,684,052 |
| | \$1,518,600,669\$ | 168,142,353 | \$1,686,743,022 |

- Note:—(a) Callable at par on or after Feb. 1, 1961
(b) Callable at par on or after Jan. 3, 1961
(c) Callable at par on or after Jan. 2, 1964
(d) Callable at par on or after Sept. 15, 1964
(e) Callable at par on or after Jan. 16, 1966
(f) Callable at par on or after Feb. 1, 1972
(g) Callable on or before June 14, 1962, at 101½; thereafter at varying redemption premiums.

(h) Amounts of ¼% or 1% of the original issues may be purchased quarterly through Purchase Funds operated under the conditions of each issue.

(i) During 1959 the Company completed negotiations for the issue on Jan. 1, 1960, of \$100,000,000 5¼% 25 year bonds due Jan. 1, 1985. The proceeds of this issue were used to repay certain Government of Canada loans.

SHAREHOLDERS' EQUITY

GOVERNMENT OF CANADA

No par value capital stock of Canadian National Railway Company.....\$

4% Preferred stock of Canadian National Railway Company.....

Capital investment in Canadian Government Railways.....

Total Government of Canada.....

CAPITAL STOCK OF SUBSIDIARY COMPANIES OWNED BY PUBLIC.....

Total Shareholders' Equity.....

TOTAL LONG TERM DEBT AND SHAREHOLDERS' EQUITY.....

| | | | | | |
|----|-------------------|----|-------------|----|-----------------|
| \$ | 398,518,135 | \$ | 2,903,150 | \$ | 386,614,985 |
| | 882,320,571 | | 22,168,692 | | 904,489,263 |
| | 432,549,139 | | 256,335 | | 432,805,474 |
| | 1,704,387,845 | | 19,521,877 | | 1,723,909,722 |
| | 4,504,203 | | 654 | | 4,503,549 |
| | \$1,708,892,048\$ | | 19,521,223 | | \$1,728,413,271 |
| | \$3,227,492,717\$ | | 187,663,576 | | \$3,415,156,293 |

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM

CAPITAL STOCK OWNED BY GOVERNMENT OF CANADA

| Company number | | \$ |
|----------------|--|-----------------|
| 1 | { Canadian National Railway Company (Common)..... | 386,614,985 |
| | { Canadian National Railway Company (Preferred)..... | 904,489,263 |
| | | \$1,291,104,248 |

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC

| Company number | Name of Issuing Company | Controlled by company number | Capital stock issued | Owned by public |
|----------------|---|------------------------------|----------------------|-----------------|
| | | | \$ | \$ |
| 1 | Canadian National Railway Company | see above | | |
| 2 | Atlantic and St. Lawrence Railroad Company..... | 1 | 6,302,340 | 3,840 |
| 3 | Canadian National Express Company..... | 1 | 1,000,000 | |
| 4 | Canadian National Hotels, Limited..... | 1 | 30,877,650 | |
| 5 | Canadian National Railways (France)..... | 1 | 1,886,114 | |
| 6 | The Canadian National Railways Securities Trust.. | 1 | 5 million shares | |
| 7 | Canadian National Realities, Limited..... | 1 | 40,000 | |
| 8 | Canadian National Rolling Stock Limited..... | 1 | 50,000 | |
| 9 | Canadian National Steamship Company, Limited.. | 1 | 15,000 | |
| 10 | Canadian National Telegraph Company..... | 1 | 525,900 | |
| 11 | Canadian National Transfer Company..... | 1 | 500,000 | |
| 12 | Canadian National Transportation, Limited..... | 1 | 500 | |
| 13 | The Canadian Northern Quebec Railway Company | 1 | 9,550,000 | 3,849,200 |
| 14 | The Central Counties Railway Company..... | 1 | 500,000 | 12,000 |
| 15 | The Champlain and St. Lawrence Railroad Com- pany..... | 1 | 50,000 | |
| 16 | The Great North Western Telegraph Company of Canada..... | 1 | 373,625 | 6,825 |
| 17 | The Minnesota and Manitoba Railroad Company... | 1 | 400,000 | |
| 18 | The Minnesota and Ontario Bridge Company..... | 1 | 100,000 | |
| 19 | Montreal and Southern Counties Railway Company | 1 | 500,000 | 140,600 |
| 20 | Montreal Fruit & Produce Terminal Company, Limited..... | 1 | 500 | |
| 21 | The Montreal Stock Yards Company..... | 1 | 350,000 | |
| 22 | The Montreal Warehousing Company..... | 1 | 236,000 | 1,499 |
| 23 | Mount Royal Tunnel and Terminal Company, Limited..... | 1 | 5,000,000 | |
| 24 | The Niagara, St. Catharines and Toronto Railway Company..... | 1 | 925,000 | |
| 25 | The Quebec and Lake St. John Railway Company. | 1 | 4,508,300 | 489,160 |
| 26 | The United States and Canada Rail Road Company | 1 | 219,400 | 425 |
| 27 | Vermont and Province Line Railroad Company.... | 1 | 200,000 | |
| 28 | Yukon Telephone Company Ltd..... | 1 | 62,500 | |
| 29 | Central Vermont Railway, Inc. | 1 | 10,000,000 | |
| 30 | Central Vermont Transportation Company..... | 29 | 200,000 | |
| 31 | Duluth, Winnipeg and Pacific Railway Company... | 1 | 3,100,000 | |
| 32 | Duluth, Rainy Lake & Winnipeg Railway Company. | 31 | 2,000,000 | |
| 33 | Duluth, Winnipeg and Pacific Railroad Company... | 31 | 100,000 | |
| 34 | Grand Trunk Western Railroad Company (Com- mon) | 1 | 20,000,000 | |
| 34 | Grand Trunk Western Railroad Company (Pre- ferred) | 1 | 25,000,000 | |
| 35 | Consolidated Land Corporation..... | 34 | 64,000 | |
| 36 | Grand Trunk-Milwaukee Car Ferry Company..... | 34 | 200,000 | |
| 37 | Industrial Land Company..... | 34 | 1,000 | |
| | | | | \$ 4,503,549 |

In addition to the shares of the Canadian National Railway Company the Government of Canada has also invested \$432,805,474 in Canadian Government Railways. The Canadian Government Railways property is entrusted to the Canadian National Railway Company as part of the System.

OPERATED MILEAGE AT DECEMBER 31, 1959

| | Owned | Leased | Trackage Rights | Total |
|--|--------|--------|-----------------|--------|
| First main track in Canada..... | 23,113 | 36 | 195 | 23,344 |
| First main track in United States..... | 1,438 | 182 | 123 | 1,743 |
| Total first main track..... | 24,551 | 218 | 318 | 25,087 |
| Other main track..... | 1,159 | — | 83 | 1,242 |
| Spurs, sidings and yard tracks..... | 7,001 | 74 | 1,615 | 8,690 |
| Total all tracks..... | 32,711 | 292 | 2,016 | 35,019 |

INVESTMENTS IN AFFILIATED COMPANIES NOT CONSOLIDATED

| Company | Percentage Held | Investment at Dec. 31, 1958 | Transactions Year 1959 Increase or Decrease | Investment at Dec. 31, 1959 |
|--|-----------------|-----------------------------|---|-----------------------------|
| | | \$ | \$ | \$ |
| The Belt Railway Company of Chicago | | | | |
| Capital Stock..... | 7.69 | 240,000 | | 240,000 |
| Advances..... | — | 51,117 | 1,915 | 53,032 |
| Chicago & Western Indiana Railroad Company | | | | |
| Capital Stock..... | 20 | 1,000,000 | | 1,000,000 |
| Advances..... | — | 5,600,204 | 399,344 | 5,999,548 |
| The Detroit & Toledo Shore Line Railroad Company | | | | |
| Capital Stock..... | 50 | 1,500,000 | | 1,500,000 |
| Detroit Terminal Railroad Company | | | | |
| Capital Stock..... | 50 | 1,000,000 | | 1,000,000 |
| Northern Alberta Railways Company | | | | |
| Capital Stock..... | 50 | 7,868,000 | 387,500 | 8,255,500 |
| Bonds..... | 50 | 15,549,500 | 787,500 | 16,337,000 |
| Advances..... | | 150,000 | 150,000 | |
| The Public Markets, Limited | | | | |
| Capital Stock..... | 50 | 575,000 | | 575,000 |
| Railway Express Agency, Inc. | | | | |
| Capital Stock..... | 0.6 | 600 | | 600 |
| Advances..... | | 173,493 | | 173,493 |
| The Shawinigan Falls Terminal Railway Company | | | | |
| Capital Stock..... | 50 | 62,500 | | 62,500 |
| The Toronto Terminals Railway Company | | | | |
| Capital Stock..... | 50 | 250,000 | | 250,000 |
| Bonds..... | 50 | 11,520,400 | 93,200 | 11,427,200 |
| Advances..... | | 193,715 | 103,700 | 90,015 |
| Trans-Canada Air Lines | | | | |
| Capital Stock..... | 100 | 5,000,000 | | 5,000,000 |
| Debentures..... | 100 | 26,500,000 | 41,694,000 | 68,194,000 |
| Advances..... | | 56,600,000 | 10,306,000 | 66,906,000 |
| Vancouver Hotel Company Limited | | | | |
| Capital Stock..... | 50 | 75,000 | | 75,000 |
| Total..... | | 133,909,529 | 53,229,359 | 187,138,888 |

SOURCE AND APPLICATION OF FUNDS FOR THE YEAR 1959

SOURCE OF FUNDS

| | | |
|--|---------------|---------------|
| Amount recoverable from Government of Canada in respect of deficit for the year (including \$37,000,000 received on account prior to December 31, 1959)..... | | \$ 43,588,290 |
| Increase in Recorded Depreciation | | |
| Provision for the year..... | \$ 86,310,651 | |
| Less—Reduction in respect of retirements..... | 39,870,877 | |
| | | 46,439,774 |
| Long Term Debt | | |
| Increase in bonds, debentures and equipment obligations..... | 307,250,000 | |
| Less—Decrease in Government of Canada loans..... | 139,107,647 | |
| | | 168,142,353 |
| Shareholder's Equity—Government of Canada | | |
| Issue of 4% Preferred stock of Canadian National Railway Company..... | 22,168,692 | |
| Capital loss on retirement of steam locomotives charged against no par value capital stock..... | 2,903,150 | |
| Additional capital invested in Canadian Government Railways..... | 256,335 | |
| | | 19,521,877 |
| Decrease in working capital..... | | 1,744,157 |
| | | \$279,436,451 |

APPLICATION OF FUNDS

| | | |
|---|---------------|---------------|
| Deficit for the year..... | | \$ 43,588,290 |
| Property Investment | | |
| Additions..... | \$222,069,950 | |
| Less—Retirements..... | 61,577,523 | |
| | | 160,492,427 |
| Government of Canada expenditure on Canadian Government Railways..... | 256,335 | |
| | | 160,748,762 |
| Advances to Trans-Canada Air Lines..... | | 52,000,000 |
| Other..... | | 20,102,533 |
| Government of Canada current account..... | | 2,996,866 |
| | | \$279,436,451 |

EQUIPMENT PLACED IN SERVICE DURING 1959

Motive Power Equipment

| | |
|-----------------------|------------------------|
| Diesel Electric Units | |
| 32 | 1800 HP road-passenger |
| 60 | 1200 HP road-switching |
| 4 | 1400 HP road-switching |
| 93 | 1750 HP road-switching |
| 50 | 1800 HP road-switching |
| 49 | 1000 HP switching |
| 2 | 1200 HP switching |
| 290 | |
| 1 | Steam generator unit |

Freight Equipment

| | |
|-------|-----------------------------|
| 125 | automobile transporter cars |
| 473 | 50-ton flat cars |
| 438 | 70-ton ballast cars |
| 32 | 40-ton ballast cars |
| 200 | 50-ton heated box cars |
| 1,268 | |

Passenger Equipment

| | |
|---|--------------------------|
| 4 | sleeping cars |
| 1 | unit car-diesel railiner |
| 5 | |

Work Equipment

| | |
|----|---|
| 5 | diesel locomotive cranes—30 ton |
| 2 | diesel locomotive cranes—40-ton! |
| 1 | Jordan spreader |
| 2 | Jordan spreader-ditchers |
| 1 | single track snow plow |
| 5 | passenger carrying cars |
| 20 | miscellaneous units built from salvage in railway shops |
| 36 | |

INVENTORY OF RAILWAY EQUIPMENT

| | On Hand Jan. 1, 1959 | Placed in Service | Retired | Converted | | On Hand Dec. 31, 1959 | Orders Outstand- ing Dec. 31, 1959 |
|--------------------------------------|-------------------------|----------------------|--------------|-----------|------------|-----------------------------|---|
| | | | | Added | Retired | | |
| Motive Power Equipment | | | | | | | |
| Steam—Road Locomotives..... | 999 | | 196 | | | 803 | |
| Steam—Switching Locomotives..... | 215 | | 53 | | | 162 | |
| Electric Locomotives..... | 50 | | 13 | | | 37 | |
| Diesel—Electric Units | | | | | | | |
| Road—Freight..... | 172 | | 1 | | | 171 | |
| Road—Passenger..... | 119 | 32 | | | | 151 | |
| Road—Switching..... | 978 | 207 | 3 | | | 1,182 | 123 |
| Switching..... | 467 | 51 | 1 | | | 517 | |
| Total..... | 3,000 | 290 | 267 | | | 3,023 | 123 |
| Steam Generator Units..... | 93 | 1 | 1 | | | 93 | 15 |
| Freight Equipment | | | | | | | |
| Box cars..... | 79,136 | 125 | 2,635 | | 263 | 76,363 | |
| Flat cars..... | 6,569 | 473 | 151 | | 60 | 6,831 | 27 |
| Stock cars..... | 2,706 | | 107 | | | 2,599 | |
| Hopper cars..... | 7,514 | | 112 | | 4 | 7,398 | |
| Gondola cars..... | 12,143 | | 46 | 5 | 2 | 12,100 | |
| Ore cars..... | 1,643 | | | | | 1,643 | 200 |
| Ballast cars..... | 2,729 | 470 | 37 | | | 3,162 | |
| Tank cars..... | 25 | | | | | 25 | |
| Refrigerator cars..... | 5,413 | | 98 | | | 5,315 | |
| Heated box cars..... | | 200 | | 1 | | 201 | |
| Air dump cars..... | 20 | | | | | 20 | |
| Caboose cars..... | 1,807 | | 42 | | | 1,765 | |
| Other cars in freight service..... | 1 | | | 2 | | 3 | |
| Total..... | 119,706 | 1,268 | 3,228 | 8 | 329 | 117,425 | 227 |
| Passenger Equipment | | | | | | | |
| Coach cars..... | 959 | | 29 | 7 | 13 | 924 | |
| Combination cars..... | 231 | | 7 | | | 224 | |
| Dining cars..... | 105 | | | | 7 | 98 | |
| Colonist cars..... | 65 | | 8 | | | 57 | |
| Parlor cars..... | 76 | | | | 2 | 74 | |
| Cafe cars..... | 17 | | | | 1 | 16 | |
| Sleeping cars..... | 488 | 4 | 2 | | 17 | 473 | |
| Tourist cars..... | 31 | | | | 2 | 31 | |
| Baggage and express cars..... | 1,431 | | 11 | | | 1,418 | |
| Postal cars..... | 56 | | | | | 56 | |
| Unit cars..... | 64 | 1 | 9 | | | 56 | |
| Other cars in passenger service..... | 57 | | 5 | 1 | 1 | 52 | |
| Total..... | 3,580 | 5 | 71 | 8 | 43 | 3,479 | |
| Work Equipment | | | | | | | |
| Units in work service..... | 9,735 | 36 | 354 | 356 | | 9,773 | 5 |
| Floating Equipment | | | | | | | |
| Car ferries..... | 8 | | | | | 8 | |
| Barges..... | 6 | | 1 | | | 5 | |
| Steamers..... | 15 | | 3 | | | 12 | |
| Tugs..... | 6 | | | | | 6 | |
| Work..... | 2 | | | | | 2 | |
| Total..... | 37 | | 4 | | | 33 | |

STATISTICS OF RAIL-LINE OPERATIONS

| | 1959 | 1958 |
|--|----------------------|----------------------|
| Train-Miles | | |
| Freight service..... | 37,754,181 | 37,507,065 |
| Passenger service..... | 22,394,255 | 23,075,444 |
| Work service..... | 2,407,865 | 2,149,598 |
| Total train-miles..... | 62,556,301 | 62,732,107 |
| Locomotive-Miles | | |
| Freight service..... | 38,171,798 | 38,121,199 |
| Passenger service..... | 19,830,190 | 20,860,790 |
| Train switching—Freight..... | 2,562,579 | 2,822,898 |
| —Passenger..... | 68,210 | 90,431 |
| Yard switching—Freight..... | 15,945,034 | 15,795,607 |
| —Passenger..... | 1,785,950 | 1,750,574 |
| Work service..... | 2,504,057 | 2,241,965 |
| Total locomotive-miles..... | 80,867,818 | 81,683,464 |
| Car-Miles | | |
| Freight service: | | |
| Loaded freight cars..... | 1,169,701,119 | 1,191,841,547 |
| Empty freight cars..... | 641,428,080 | 625,143,146 |
| Passenger coach and combination cars..... | 4,187,391 | 4,815,008 |
| Other cars..... | 13,039,164 | 12,652,979 |
| Caboose cars..... | 37,798,300 | 37,875,657 |
| | 1,866,154,054 | 1,872,328,337 |
| Passenger Service: | | |
| Loaded freight cars..... | 2,068,552 | 1,256,302 |
| Empty freight cars..... | 196,205 | 171,597 |
| Passenger coach and combination cars..... | 47,495,183 | 49,211,066 |
| Sleeping parlor and observation cars..... | 50,662,550 | 51,384,129 |
| Dining cars..... | 8,562,967 | 8,263,208 |
| Motor unit cars..... | 4,153,329 | 3,895,660 |
| Other cars (baggage and express cars, etc.)..... | 89,626,547 | 89,737,555 |
| | 202,765,333 | 203,919,517 |
| Work service..... | 5,042,176 | 7,361,184 |
| Total car-miles..... | 2,073,961,563 | 2,083,609,038 |
| Average Mileage of Road Operated..... | 24,887.81 | 24,881.58 |
| Freight Traffic | | |
| Tons carried—Revenue freight..... | 82,202,096 | 79,486,001 |
| Ton-miles—Revenue freight..... | 35,542,136,785 | 35,076,836,756 |
| Revenue per ton..... | \$6.97357 | \$6.85945 |
| Revenue per ton-mile..... | \$0.01613 | \$0.01554 |
| Average haul (miles)..... | 432.38 | 441.30 |
| Ton-miles—Revenue freight per mile of road..... | 1,423,304 | 1,404,774 |
| Ton-miles—All freight per mile of road..... | 1,473,014 | 1,467,772 |
| Gross ton-miles of cars, contents and cabooses..... | 81,242,327,191 | 81,333,724,140 |
| Net ton-miles of freight (revenue and non-revenue)..... | 36,422,947,318 | 36,521,092,001 |
| Train-hours in freight road service..... | 1,890,372 | 1,926,131 |
| Gross ton-miles per freight train hour..... | 42,937 | 41,764 |
| Average speed of freight trains (miles per hour)..... | 20.0 | 19.5 |
| Average gross load—Freight trains (tons)..... | 2,150 | 2,145 |
| Steam locomotive miles per serviceable day (excluding stored)..... | 75 | 73 |
| Diesel unit miles per serviceable day (excluding stored)..... | 215 | 215 |
| Passenger Traffic | | |
| Passengers carried..... | 12,693,777 | 12,737,113 |
| Passenger-miles..... | 1,272,152,625 | 1,268,780,666 |
| Revenue per passenger..... | \$3.16544 | \$3.25763 |
| Average passenger journey (miles)..... | 100.22 | 99.61 |
| Revenue per passenger mile..... | \$0.03159 | \$0.03270 |
| Passenger-miles per mile of road..... | 51,115 | 50,993 |
| Percent on time arrival principal passenger trains..... | 71.6 | 80.1 |
| Steam locomotive miles per serviceable day (excluding stored)..... | 99 | 136 |
| Diesel unit miles per serviceable day (excluding stored)..... | 399 | 435 |
| Net Railway Operating Income | | |
| Gross revenue per mile of road..... | \$29,740 | \$28,332 |
| Gross railway operating charges per mile of road..... | \$29,808 | \$28,905 |
| Net railway operating deficit per mile of road..... | \$ 68 | \$ 573 |

REVENUE TONNAGE BY COMMODITIES

| | Year | Year | Increase or Decrease | |
|--|-------------------|-------------------|----------------------|-------------|
| | 1959 | 1958 | Tons | Percent |
| | Tons | Tons | | |
| Agricultural Products | | | | |
| Wheat..... | 6,595,692 | 6,638,859 | 43,167 | .65 |
| Other grains..... | 3,166,054 | 3,408,176 | 242,122 | 7.10 |
| Grain products..... | 3,206,874 | 3,300,170 | 93,296 | 2.83 |
| Fruits, fresh or fresh frozen..... | 355,071 | 373,431 | 18,360 | 4.92 |
| Vegetables, fresh or green..... | 680,223 | 730,393 | 50,170 | 6.87 |
| Other agricultural products..... | 1,107,538 | 1,173,934 | 66,396 | 5.66 |
| Total Agricultural Products..... | 15,111,452 | 15,624,963 | 513,511 | 3.29 |
| Animals and Animal Products | | | | |
| Livestock..... | 280,417 | 302,646 | 22,229 | 7.84 |
| Butter, cheese and eggs..... | 47,975 | 52,159 | 4,184 | 8.0 |
| Fresh meats, fish and packing house products (edible)..... | 284,520 | 289,048 | 4,528 | 1.57 |
| Other animal products (non-edible)..... | 136,645 | 152,602 | 15,957 | 10.46 |
| Total Animals and Animal products..... | 749,557 | 796,455 | 46,898 | 5.89 |
| Mine Products | | | | |
| Coal..... | 8,112,743 | 8,535,371 | 422,628 | 4.95 |
| Coke..... | 794,786 | 799,999 | 5,213 | .65 |
| Iron ore..... | 3,661,202 | 1,997,265 | 1,663,937 | 83.31 |
| Aluminum ore and concentrates..... | 388,837 | 464,498 | 75,661 | 16.29 |
| Copper ore and concentrates..... | 378,064 | 381,985 | 3,921 | 1.03 |
| Copper-nickel ore and concentrates..... | 1,642,779 | 1,343,524 | 299,255 | 22.27 |
| Non-ferrous ores and concentrates (N.O.S.)..... | 1,110,853 | 1,385,981 | 275,128 | 19.85 |
| Crude petroleum..... | 234,372 | 271,370 | 36,998 | 13.63 |
| Building sand, gravel and crushed stone..... | 8,157,507 | 8,416,150 | 258,643 | 3.07 |
| Crude gypsum..... | 2,138,487 | 1,682,262 | 456,225 | 27.12 |
| Other mine products (non-metallic)..... | 4,016,700 | 3,425,820 | 590,880 | 17.25 |
| Total Mine Products..... | 30,636,330 | 28,704,225 | 1,932,105 | 6.73 |
| Forest Products | | | | |
| Logs, posts, poles and piling (excluding cordwood and fuelwood)..... | 934,377 | 935,550 | 1,173 | .13 |
| Lumber, timber and plywood..... | 4,433,484 | 4,026,108 | 407,376 | 10.12 |
| Pulpwood..... | 2,988,337 | 3,505,414 | 517,077 | 14.75 |
| Other forest products..... | 308,345 | 208,803 | 99,542 | 47.67 |
| Total Forest Products..... | 8,664,543 | 8,675,875 | 11,332 | .13 |
| Manufactures and Miscellaneous | | | | |
| Iron and steel: pig, blooms and ingots..... | 606,832 | 368,184 | 238,648 | 64.82 |
| Iron and steel products (manufactured)..... | 420,370 | 637,792 | 217,422 | 54.09 |
| Non-ferrous metals: matte, pig and ingot..... | 1,031,261 | 1,051,139 | 19,878 | 1.89 |
| Machinery, boilers and castings..... | 331,174 | 310,371 | 20,803 | 6.70 |
| Gasoline..... | 2,218,810 | 2,237,256 | 18,446 | .82 |
| Fuel Oil..... | 1,997,498 | 1,870,008 | 127,490 | 6.82 |
| Other petroleum products..... | 675,086 | 653,040 | 22,046 | 3.38 |
| Cement..... | 1,188,834 | 1,384,992 | 196,158 | 14.16 |
| Plaster, lime, brick building stone, tile and non- metallic pipe..... | 692,033 | 719,261 | 27,228 | 3.79 |
| Woodpulp..... | 1,414,748 | 1,350,409 | 64,339 | 4.76 |
| Newsprint paper..... | 2,121,482 | 1,989,605 | 131,877 | 6.63 |
| Paperboard, pulpboard and wallboard (paper)..... | 935,469 | 847,069 | 88,400 | 10.44 |
| Paper other than newsprint..... | 698,310 | 659,199 | 39,111 | 5.93 |
| Beverages..... | 343,318 | 337,496 | 5,822 | 1.73 |
| Canned goods..... | 746,207 | 766,381 | 20,174 | 2.63 |
| Sugar..... | 259,659 | 248,631 | 11,028 | 4.44 |
| Agricultural implements and farm tractors..... | 157,560 | 135,983 | 21,577 | 15.87 |
| Automobiles, auto trucks and parts..... | 2,145,412 | 1,750,779 | 394,633 | 22.54 |
| Fertilizers..... | 897,741 | 1,030,766 | 133,025 | 12.91 |
| Scrap and waste metals..... | 1,018,051 | 827,991 | 190,060 | 22.95 |
| Chemicals and acids (N.O.S.)..... | 934,683 | 892,870 | 41,813 | 4.68 |
| Miscellaneous carload commodities not specified above..... | 5,146,336 | 4,701,108 | 445,228 | 9.47 |
| Total Manufactures and Miscellaneous..... | 25,980,874 | 24,770,330 | 1,210,544 | 4.89 |
| All less than carload freight..... | 892,783 | 914,153 | 21,370 | 2.34 |
| Grand Total..... | 82,035,539 | 79,486,001 | 2,549,538 | 3.21 |

A 25-YEAR SYNOPTICAL HISTORY OF THE CANADIAN NATIONAL RAILWAYS

| Year | Operating Revenues | Operating Expenses | Net Operating Revenue | Taxes Rents and Other Income | Available for Fixed Charges and Dividends | Fixed Charges | Surplus or Deficit | Freight Revenue Ton Miles | Freight Revenue per Ton Mile | Revenue Passenger Miles | Revenue per Passenger Mile | Average Number of Employees | Average Hourly Earning per Employee |
|------|--------------------|--------------------|-----------------------|------------------------------|---|---------------|--------------------|---------------------------|------------------------------|-------------------------|----------------------------|-----------------------------|-------------------------------------|
| | (Thousands) | (Thousands) | (Thousands) | (Thousands) | (Thousands) | (Thousands) | (Thousands) | (Millions) | c. | (Millions) | c. | | \$ |
| 1935 | \$173,184 | \$158,926 | \$14,258 | \$ 4,787 | \$ 9,471 | \$56,803 | \$47,422 | 13,509 | .990 | 770 | 2.162 | 79,044 | .590 |
| 1936 | 186,611 | 171,478 | 15,133 | 6,264 | 8,869 | 52,172 | 43,303 | 14,814 | .982 | 831 | 2.048 | 83,506 | .590 |
| 1937 | 198,397 | 180,789 | 17,608 | 6,684 | 10,924 | 53,270 | 42,346 | 15,165 | 1.014 | 953 | 1.987 | 84,363 | .613 |
| 1938 | 182,242 | 176,175 | 6,067 | 6,929 | 862 | 53,452 | 54,314 | 14,505 | .964 | 892 | 2.030 | 79,940 | .653 |
| 1939 | 203,820 | 182,966 | 20,854 | 7,461 | 13,393 | 53,488 | 40,095 | 17,084 | .938 | 875 | 2.035 | 81,672 | .652 |
| 1940 | 247,527 | 202,520 | 45,007 | 8,667 | 36,340 | 53,305 | 16,965 | 21,532 | .994 | 1,125 | 1.929 | 86,366 | .650 |
| 1941 | 304,377 | 237,769 | 66,608 | 9,430 | 57,178 | 53,162 | 4,016 | 27,200 | .881 | 1,762 | 1.810 | 95,362 | .682 |
| 1942 | 375,655 | 288,999 | 86,656 | 9,923 | 76,733 | 51,670 | 25,063 | 31,729 | .909 | 2,708 | 1.784 | 100,651 | .730 |
| 1943 | 440,616 | 324,476 | 116,140 | 28,311 | 87,829 | 52,190 | 35,639 | 36,327 | .894 | 3,619 | 1.848 | 106,893 | .763 |
| 1944 | 441,147 | 362,547 | 78,600 | 5,099 | 73,501 | 50,474 | 23,027 | 36,016 | .893 | 3,697 | 1.888 | 108,278 | .827 |
| 1945 | 433,773 | 355,294 | 78,479 | 4,713 | 73,766 | 49,010 | 24,756 | 34,600 | .915 | 3,338 | 1.953 | 110,591 | .832 |
| 1946 | 400,586 | 357,237 | 43,349 | 5,626 | 37,723 | 46,685 | 8,962 | 30,812 | .975 | 2,289 | 2.190 | 109,809 | .898 |
| 1947 | 438,198 | 397,123 | 41,075 | 11,034 | 30,041 | 45,926 | 15,885 | 32,945 | 1.040 | 1,845 | 2.332 | 112,801 | .927 |
| 1948 | 491,270 | 464,740 | 26,530 | 13,721 | 12,809 | 46,342 | 33,533 | 32,943 | 1.195 | 1,755 | 2.368 | 115,395 | 1.064 |
| 1949 | 500,723 | 478,501 | 22,222 | 15,633 | 6,589 | 48,632 | 42,043 | 30,922 | 1.276 | 1,621 | 2.671 | 116,057 | 1.104 |
| 1950 | 553,831 | 493,997 | 59,834 | 15,673 | 44,161 | 47,422 | 3,261 | 31,988 | 1.394 | 1,408 | 2.834 | 116,347 | 1.133 |
| 1951 | 624,834 | 580,150 | 44,684 | 11,539 | 33,145 | 48,177 | 15,032 | 36,435 | 1.369 | 1,611 | 2.947 | 124,608 | 1.204 |
| 1952 | 675,219 | 634,853 | 40,366 | 14,809 | 25,557 | 25,415 | 142 | 38,430 | 1.397 | 1,635 | 2.964 | 131,297 | 1.425 |
| 1953 | 696,622 | 659,049 | 37,573 | 7,953 | 29,620 | 29,376 | 244 | 36,678 | 1.509 | 1,539 | 2.934 | 130,109 | 1.525 |
| 1954 | 640,637 | 626,465 | 14,172 | 10,403 | 3,769 | 32,527 | 28,758 | 32,882 | 1.529 | 1,472 | 2.973 | 122,237 | 1.550 |
| 1955 | 683,089 | 629,013 | 54,076 | 10,354 | 43,722 | 33,004 | 10,718 | 35,677 | 1.511 | 1,464 | 3.001 | 119,430 | 1.560 |
| 1956 | 774,801 | 703,304 | 71,497 | 13,637 | 57,860 | 31,783 | 26,077 | 41,935 | 1.461 | 1,501 | 3.054 | 126,639 | 1.645 |
| 1957 | 753,166 | 734,556 | 18,610 | 11,211 | 7,399 | 36,972 | 29,573 | 36,674 | 1.601 | 1,499 | 3.124 | 124,620 | 1.716 |
| 1958 | 704,947 | 700,021 | 4,926 | 9,996 | 5,070 | 46,521 | 51,591 | 35,077 | 1.554 | 1,269 | 3.270 | 113,086 | 1.798 |
| 1959 | 740,165 | 720,822 | 19,343 | 10,012 | 9,331 | 52,919 | 43,588 | 35,542 | 1.613 | 1,272 | 3.159 | 111,538 | 1.905 |

CANADIAN NATIONAL RAILWAYS

CAPITAL BUDGET—YEAR 1960

| | Cost to Complete Projects Authorized in Prior Years | | Total | 1960 Expenditures | 1959 Budget: |
|---|---|---------|---------|-------------------|--------------|
| | 1960 Proposals | | | | |
| (000) | (000) | (000) | (000) | (000) | (000) |
| ROAD PROPERTY | | | | | |
| New Lines, Diversions and Abandonments..... | 41,327 | 9,135 | 50,462 | 11,862 | 8,567 |
| Roadway Improvements..... | 51,817 | 2,251 | 54,068 | 52,841 | 62,802 |
| Large Terminals..... | 38,540 | 39,192 | 77,732 | 25,931 | 27,034 |
| Yard Tracks and Sidings..... | 1,189 | 2,248 | 3,437 | 1,822 | 2,948 |
| Buildings..... | 5,049 | 23,753 | 28,802 | 21,123 | 20,446 |
| Highway Crossing Protection..... | 297 | — | 297 | 297 | 736 |
| Signals..... | 4,632 | 6,834 | 11,466 | 6,083 | 7,073 |
| Roadway and Shop Machinery..... | 3,477 | 2,426 | 5,903 | 4,306 | 3,827 |
| General..... | 17,685 | 5,669 | 23,354 | 19,909 | 20,601 |
| Communications..... | 9,890 | 32,682 | 42,572 | 26,033 | 18,261 |
| Road Property—Total..... | 173,903 | 124,190 | 298,093 | 170,207 | 172,295 |
| BRANCH LINES..... | — | 2,812 | 2,812 | 2,259 | 10,141 |
| HOTELS..... | 1,268 | 2,433 | 3,701 | 3,315 | 3,568 |
| EQUIPMENT..... | 22,257 | 35,616 | 57,873 | 34,977 | 88,480 |
| INVESTMENT IN AFFILIATED CO'S..... | 197,428 | 165,051 | 362,479 | 210,758 | 274,484 |
| | 1,842 | 5,000 | 6,842 | 6,842 | 17,416 |
| Less—Uncompleted Work..... | — | — | — | 217,600 | 291,900 |
| | — | — | — | 30,000 | 38,000 |
| Total—C.N.R. Capital Budget..... | 199,270 | 170,051 | 369,321 | 187,600 | 253,900 |
| Working Capital..... | 10,000 | — | 10,000 | 10,000 | — |
| Total—C.N.R. Requirements..... | 209,270 | 170,051 | 379,321 | 197,600 | 253,900 |

NOTE: The amounts required for refunding and/or retirement of maturing securities are shown on Page 8 hereof

T.C.A. FINANCIAL REQUIREMENTS

| | | | | | |
|---|---------|---------|---------|---------|---------|
| Presented for inclusion in the Financing and Guarantee Act..... | 82,350 | — | 82,350 | 82,350 | 57,000 |
| Total Requirements..... | 291,620 | 170,051 | 461,671 | 279,950 | 310,900 |

CANADIAN NATIONAL RAILWAYS

STATEMENT OF FINANCING AUTHORITY REQUIRED WITH
RESPECT TO CAPITAL BUDGET

| | | |
|---|-------------------|-------------------|
| Year 1960..... | | (000) |
| <i>Gross Capital Expenditures</i> | | |
| Road Property..... | \$ 170,207 | |
| Branch Lines..... | 2,259 | |
| Hotels..... | 3,315 | |
| Equipment..... | 34,977 | |
| | <u>210,758</u> | |
| Investment in Affiliated Companies..... | 6,842 | |
| | <u>217,600</u> | |
| Less—Uncompleted Work..... | 30,000 | |
| | <u>187,600</u> | |
| <i>Working Capital Requirements</i> | | |
| Amount required to finance temporarily alterations to Victoria Bridge to co-ordinate with St. Lawrence Seaway..... | | 10,000 |
| | | <u>197,600</u> |
| Trans-Canada Air Lines—Financial Requirements..... | | 82,350 |
| | | <u>\$ 279,950</u> |
| <i>Source of Funds</i> | | |
| Depreciation Accruals, etc..... | \$ 112,000 | |
| Issue of Securities: | | |
| Preferred Stock..... | 22,800 | |
| Additional Borrowing—1960..... | 62,800 | |
| | <u>197,600</u> | |
| Borrowing—Trans Canada Air Lines..... | 82,350 | |
| | <u>\$ 279,950</u> | |
| January 1, 1961 to June 30, 1961 | | |
| Interim financial authority required with respect to capital expenditures authorized in 1960 and prior years | | |
| <i>Gross Capital Expenditures:</i> C.N.R..... | 66,000 | |
| T.C.A..... | 20,000 | |
| | <u>86,000</u> | |
| Financing thereof: | | |
| Funds available from depreciation accruals, etc..... | 50,000 | |
| | <u>\$ 36,000</u> | |
| Issue of Securities: | | |
| Preferred Stock..... | 11,000 | |
| Additional borrowing—C.N.R..... | 5,000 | |
| —T.C.A..... | 20,000 | |
| | <u>\$ 36,000</u> | |

COMMITMENT AUTHORITY REQUESTED

Authority is requested to enter into contracts prior to the first day of July 1961 for the acquisition of new equipment and for general additions and conversions that will come in course of payment after the calendar year 1960 in amounts not exceeding in the aggregate..... \$ 51,000

EXISTING FINANCING AUTHORITY

Financing authority exists under CANADIAN NATIONAL FINANCING AND GUARANTEE ACT, 1959, Section 3 (1) (b) for an amount of \$130,000,000. Estimated expenditures against this amount are \$87,000,000 for Road and Equipment and \$43,000,000 for advances to Trans-Canada Air Lines.

CANADIAN NATIONAL RAILWAYS

SUMMARY OF ROAD PROPERTY CAPITAL BUDGET PROJECTS BY AREAS

TOTAL OF 1960 PROPOSALS AND COST TO COMPLETE PROJECTS APPROVED IN PRIOR YEARS

| | Atlantic Region | | | | | | | Total |
|---|-------------------|-----------------------|----------------|----------------|---------------------|-------------------------|------------|-------------|
| | Maritime District | Newfoundland District | Central Region | Western Region | Grand Trunk Western | Central Vermont Railway | Other | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | |
| New Lines, Diversions and Abandonments..... | 310,000 | — | 46,019,600 | 4,132,200 | — | — | — | 50,461,800 |
| Roadway Improvements..... | 7,228,900 | 2,652,000 | 13,452,200 | 29,171,000 | 1,476,100 | 87,700 | — | 54,067,900 |
| Large Terminals..... | 6,816,700 | 1,790,000 | 48,411,773 | 20,642,000 | 72,000 | — | — | 77,732,473 |
| Yard Tracks and Sidings..... | 312,200 | 272,400 | 596,700 | 2,201,400 | 45,000 | 10,000 | — | 3,437,700 |
| Buildings..... | 395,800 | 744,800 | 22,477,700 | 4,672,000 | 498,400 | 12,500 | — | 28,801,200 |
| Highway Crossing Protection..... | — | — | 203,000 | 52,500 | 11,200 | 30,000 | — | 296,700 |
| Signals..... | 2,556,000 | — | 3,447,300 | 5,462,700 | — | — | — | 11,466,000 |
| Roadway and Shop Machinery..... | 924,100 | 447,400 | 908,200 | 3,162,600 | 413,400 | 47,100 | — | 5,902,800 |
| General..... | 574,500 | 231,800 | 2,828,000 | 2,470,500 | 266,400 | 20,000 | 16,963,400 | 23,354,600 |
| Communications..... | — | — | — | — | — | — | 42,571,971 | 42,571,971 |
| Road Property—Total..... | 19,118,200 | 6,138,400 | 138,344,473 | 71,966,900 | 2,782,500 | 207,300 | 59,535,371 | 298,093,144 |
| Expenditures—1960..... | 16,852,200 | 4,860,900 | 54,167,800 | 51,853,500 | 2,692,800 | 182,300 | 39,597,200 | 170,206,700 |

CANADIAN NATIONAL RAILWAYS

CAPITAL BUDGET—YEAR 1960

BRANCH LINE CONSTRUCTION

Construction of the following new branch lines authorized as follows:

| | Authorization | Mileage | Estimated Expenditures | |
|---|------------------|---------|------------------------|--|
| Terrace—Kitimat..... | Chapter 20, 1952 | 46.0 | 11,500,000 | |
| Beattyville—Chibougamau—St. Felicien..... | Chapter 49, 1954 | 297.6 | 40,825,000 | |
| Bartibog—Heath Steele Mines..... | Chapter 19, 1956 | 22.0 | 3,220,000 | |
| Sipiwesk—Thompson..... | Chapter 13, 1957 | 30.0 | 5,400,000 | |
| Optic Lake—Chisel Lake..... | Chapter 13, 1957 | 52.0 | 10,165,000 | |

| | Authorized Expenditures | | Estimated Expenditures to end of 1959 | Cost to Complete | Expenditures 1960 |
|---|-------------------------|------------|---------------------------------------|------------------|-------------------|
| | Total | Capital | | | |
| Terrace—Kitimat..... | 11,500,000 | 11,500,000 | 10,950,000 | 100,000 | 100,000 |
| Beattyville—Chibougamau—St. Felicien..... | 35,000,000 | 34,930,000 | 34,486,900 | 443,100 | 393,000 |
| Bartibog—Heath Steele Mines | 2,800,000 | 2,800,000 | 2,426,000 | 35,000 | 35,000 |
| Sipiwesk—Thompson..... | 4,500,000 | 4,500,000 | 4,199,000 | 301,000 | 301,000 |
| Optic Lake—Chisel Lake.... | 10,165,000 | 10,165,000 | 5,516,700 | 1,933,300 | 1,430,000 |
| | 63,965,000 | 63,895,000 | 57,578,600 | 2,812,400 | 2,259,000 |
| Less Subsidy on Beattyville—Chibougamau—St. Felicien..... | 7,360,750 | 7,360,750 | 7,360,750 | — | — |
| | 56,604,250 | 56,534,250 | 50,217,850 | 2,812,400 | 2,259,000 |

CANADIAN NATIONAL RAILWAYS

CAPITAL BUDGET—YEAR 1960

HOTELS

| | 1960 Proposals | Cost to complete projects authorized in prior years | Total | 1960 Expenditures |
|--|----------------|---|-----------|-------------------|
| | \$ | \$ | \$ | \$ |
| "Nova Scotian", Halifax, N.S..... | 141,000 | 2,194,500 | 2,335,500 | 2,335,500 |
| "Chateau Laurier", Ottawa, Ont..... | 347,700 | 92,000 | 439,700 | 280,700 |
| "Fort Garry", Winnipeg, Man..... | — | 30,600 | 30,600 | 30,600 |
| "Bessborough", Saskatoon, Sask..... | 94,000 | 116,000 | 210,000 | 210,000 |
| "Macdonald", Edmonton, Alta..... | 128,000 | — | 128,000 | 128,000 |
| "Jasper Park Lodge", Jasper, Alta..... | 401,000 | — | 401,000 | 174,000 |
| Various Hotels..... | 75,000 | — | 75,000 | 75,000 |
| | 1,186,700 | 2,433,100 | 3,619,800 | 3,233,800 |
| "Queen Elizabeth", Montreal, Que..... | 81,000 | — | 81,000 | 81,000 |
| | 1,267,700 | 2,433,100 | 3,700,800 | 3,314,800 |

CANADIAN NATIONAL RAILWAYS

CAPITAL BUDGET—YEAR 1960

EQUIPMENT

| | 1960 Proposals | Cost to complete projects authorized in prior years | Total | 1960 Expenditures |
|---|-------------------|--|------------|----------------------|
| | \$ | \$ | \$ | \$ |
| New | | | | |
| Authority is requested for the financing to the extent indicated of the undernoted equipment, the financing and/or ordering of which was authorized in Financing and Guarantee Acts in prior years. | — | 33,507,000 | 33,507,000 | 20,707,000 |
| 140 Locomotives | | | | |
| 9 Passenger Train Cars | | | | |
| 300 Freight Cars | | | | |
| 5 Work Equipment Units | | | | |
| 454 | | | | |
| Authority is requested for the ordering of equipment estimated to cost \$15,734,000 of which \$5,638,000 will be required to finance anticipated deliveries in 1960. . . | 15,734,000 | — | 15,734,000 | 5,638,000 |
| 1,366 Freight Cars | | | | |
| 5 Work Equipment Units | | | | |
| 1,371 | | | | |
| | 15,734,000 | 33,507,000 | 49,241,000 | 26,345,000 |
| Additions, Conversions and Highway Vehicles. . | 6,522,600 | 2,109,900 | 8,632,500 | 8,632,500 |
| Total—Equipment. | 22,256,600 | 35,616,900 | 57,873,500 | 34,977,500 |

NOTE.—The particulars of the equipment required as indicated may be revised as to numbers and classes, but the total cost will not exceed the amount of the authorizations requested above.

CANADIAN NATIONAL RAILWAYS

CAPITAL BUDGET—YEAR 1960

INVESTMENT IN AFFILIATED COMPANIES

| | 1960 Budget |
|--|----------------|
| <i>Toronto Terminals Railway Company</i> | |
| Estimated requirements—\$73,400 C.N.R. proportion—50% | 36,700 |
| <i>Northern Alberta Railways</i> | |
| Estimated requirements—\$2,890,610 C.N.R. proportion—50% | 1,445,300 |
| <i>Chicago and Western Indiana Railroad</i> | |
| Advances under Agreements March 31, 1926 and May 1, 1952 | 360,000 |
| <i>Canadian National Transportation, Limited.</i> | 5,000,000 |
| Total—C.N.R. | 6,842,000 |
| <i>Trans-Canada Air Lines—Financial Requirements</i> | |
| Advances in respect of Capital Expenditures (Year 1960 only) | 82,350,000 |

CANADIAN NATIONAL RAILWAYS

RETIREMENT OF CAPITAL OBLIGATIONS INCLUDING EQUIPMENT PRINCIPAL
PAYMENTS DURING THE YEAR ENDING DECEMBER 31, 1960

| Due Date 1960 | | Amount |
|---------------|---|-----------|
| Jan. 15 | Canadian National Railways 2½% Equipment Trust Series "V" Certificates | 675,000 |
| Mar. 15 | Canadian National Railways 2½% Equipment Trust Series "U" Certificates | 1,100,000 |
| May 4 | Canadian Northern Alberta Railway Company 3½% First Mortgage Debenture Stock | 550,727* |
| July 15 | Canadian National Railways 2½% Equipment Trust Series "V" Certificates | 675,000 |
| | | 3,000,727 |

* Equivalent to par value of issue outstanding of £113,163 at rate of \$4.86½. Amount to be borrowed will be based on rate of exchange in effect at maturity date.

Bonds to be Acquired for Purchase Funds

| | |
|--|------------|
| Canadian National Railway Company 5½% Bonds, due Dec. 15, 1964 | 4,000,000 |
| Canadian National Railway Company 5% Bonds, due May 15, 1968 | 2,400,000 |
| Canadian National Railway Company 5% Bonds, due May 15, 1977 | 1,800,000 |
| Canadian National Railway Company 5½% Bonds, due Jan. 1, 1985 | 2,000,000 |
| | 10,200,000 |
| | 13,200,727 |
| (Say) | 13,201,000 |

CANADIAN NATIONAL RAILWAYS

OPERATING BUDGET—YEAR 1960

| | 1960 Budget: | 1959 Actual: |
|----------------------------------|-----------------|-----------------|
| | (000) | (000) |
| Operating Revenues | \$ 760,000 | \$ 740,165 |
| Operating Expenses | | |
| Maintenance: | | |
| Road | 162,600 | 163,767 |
| Equipment | 150,600 | 154,612 |
| Total | 313,200 | 318,379 |
| Transportation | 318,900 | 322,252 |
| Traffic | 632,100 | 640,631 |
| Miscellaneous Railway Operations | 15,400 | 15,634 |
| General | 6,000 | 6,083 |
| Total | 57,100 | 58,474 |
| Total | 710,600 | 720,822 |
| Net Operating Revenues | 49,400 | 19,343 |
| Taxes and Rents | 20,500 | 21,030 |
| Net Railway Operating Income | 28,900 | (1,687) |
| Other Income | 17,800 | 11,018 |
| Available for Fixed Charges | 46,700 | 9,331 |
| Fixed Charges | 70,700 | 52,919 |
| Deficit | \$ 24,000 | \$ 43,588 |

NOTE: The 1960 Operating Forecast is based on 1959 material prices, wage rates and freight rates.

The CHAIRMAN: We have some other items here and I am hoping we will be able to conclude them. I know we all have an invitation to go on a trip tomorrow. Unless we can finish this tonight we will have to forego our airplane trip tomorrow and take it at some other time because the DC-8 goes into service on Friday. You would have just as good a ride on Friday but you would have to pay for it then.

We have the annual report of the Canadian National (West Indies) Steamships Limited. Shall we adopt the report?

Mr. BROOME: I so move.

Seconded by Mr. Drysdale.

Motion agreed to.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

MONTREAL, February 3, 1960.

The Honourable George Hees, M.P.,
Minister of Transport,
O T T A W A .

Dear Sir:

On behalf of the Board of Directors, I submit herewith the balance sheet of Canadian National (West Indies) Steamships, Limited at December 31, 1959 and the related statement of capital surplus for the year ended on that date.

The fleet of eight vessels was sold in August 1958 to the Banco Cubano del Comercio Exterior of Havana, Cuba for \$2,800,000. The agreement of sale provided for an immediate cash payment of \$560,000 with the balance payable in five equal annual instalments of \$448,000 with interest on the unpaid balance at 5% per annum. The first of the five annual instalments was received in August 1959 and the principal outstanding under the agreement of sale amounted to \$1,792,000 at December 31, 1959. The balance owing is secured by a letter of credit from the purchaser, confirmed by the Bank of America, New York.

As the shipping operations have ceased, arrangements have been made, for administrative purposes, to transfer the corporate management to the Government of Canada. The present Directors (who are also the Directors of the Canadian National Railway Company) will be replaced by a Board consisting of designated Government officials. The present officers will be similarly replaced.

Yours truly,

D. GORDON.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

BALANCE SHEET AT DECEMBER 31, 1959

ASSETS

| | |
|---|--------------|
| <i>Cash in Banks</i> | |
| General accounts..... | \$ 19,776 |
| Time deposits (including \$1,120,000 principal and interest from agreement of sale of vessels)..... | 1,405,000 |
| | \$ 1,424,776 |
| <i>Investments in Securities</i> | |
| Investments, at cost..... | 3,066,585 |
| (Market value at Dec. 31, 1959 \$2,608,409) | |
| Accrued interest thereon..... | 28,415 |
| | 3,095,000 |
| | |
| <i>Inventory of Supplies, at estimated salvage value</i> | 2,909 |
| | |
| <i>Agreement of Sale of Vessels</i> | |
| Principal instalments of \$448,000 due annually 1960 to 1963..... | 1,792,000 |
| Accrued interest thereon..... | 32,805 |
| | 1,824,805 |
| | \$ 6,347,490 |

LIABILITIES

| | |
|--|--------------|
| <i>Matured Bonds and Accounts Payable</i> | \$ 98,525 |
| | |
| <i>Government of Canada Loan and Advance</i> | |
| 2½% loan repayable semi-annually maturing September 1, 1963..... | \$ 2,000,000 |
| Less repaid..... | 1,075,000 |
| | \$ 925,000 |
| Working capital advance..... | 150,000 |
| | 1,075,000 |
| Accrued interest thereon..... | 23,940 |
| | 1,098,940 |

SHAREHOLDERS' EQUITY

| | |
|--|--------------|
| <i>Government of Canada</i> | |
| Capital stock authorized and issued | |
| 16,400 shares par value \$100 per share..... | \$ 1,640,000 |
| Less discount on capital stock issued..... | 40,000 |
| | 1,600,000 |
| Capital surplus—per statement attached..... | 3,550,025 |
| | 5,150,025 |
| | \$ 6,347,490 |

AUDITOR'S REPORT

To The Honourable The Minister of Transport,
Ottawa, Canada.

I have examined the balance sheet of Canadian National (West Indies) Steamships, Limited as at December 31, 1959 and the statement of capital surplus for the year ended on that date. My examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances.

In my opinion, the above balance sheet and the related statement of capital surplus are properly drawn up, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, so as to give a true and fair view of the state of the affairs of the Corporation at December 31, 1959 and of the transactions for the year ended on that date, according to the best of my information and the explanations given to me and as shown by the books of the Corporation.

I further report that, in my opinion, proper books of accounts have been kept by the Corporation and the transactions that have come under my notice have been within the powers of the Corporation.

L. J. MILLS,
Comptroller.

J. A. DE LALANNE,
Chartered Accountant.

February 3, 1960.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

STATEMENT OF CAPITAL SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1959

| | | |
|--|----|-----------|
| Balance at December 31, 1958..... | \$ | 3,500,910 |
| <i>Add:</i> | | |
| Interest on time deposits..... | \$ | 49,689 |
| Interest on investments..... | | 105,489 |
| Interest on agreement of sale..... | | 103,687 |
| Other income from sale of office furniture, etc..... | | 3,822 |
| | | 262,687 |
| <i>Deduct:</i> | | |
| Settlement of outstanding claims..... | | 16,943 |
| Interest on Government of Canada loan and advance..... | | 30,926 |
| Cost of pension benefits..... | | 32,197 |
| Net adjustment of supplied inventory to estimated salvage value..... | | 47,924 |
| Management and general expenses..... | | 85,582 |
| | | 213,572 |
| Balance at December 31, 1959..... | \$ | 3,550,025 |

The next item is the annual report of the Canadian National Railways Securities Trust.

Moved by Mr. Broome, seconded by Mr. Fraser.

Motion agreed to.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

MONTREAL, February 26, 1960.

The Honourable George Hees, M.P.,
Minister of Transport,
Ottawa.
Sir:

In conformity with Section 17 of The Canadian National Railways Capital Revision Act, 1952, the Trustees of The Canadian National Railways Securities Trust submit the following report of the transactions for the calendar year 1959.

Application was made to the Governor in Council for the release of the following bonds in accordance with resolution dated February 26, 1959 and approval was so granted under authority of Order-in-Council P.C. 1959-313 dated March 19, 1959.

Canadian Northern Railway Company

| | | |
|---|---|------------|
| 3½% First Mortgage Debenture Stock, due July 20, 1958 . | £ | 359,869 |
| | | \$ 508,666 |

Grand Trunk Western Railway Company

| | | |
|---|---|-------------|
| 4% First Mortgage Bonds, due July 1, 1950 | £ | 649,500 |
| | | \$1,293,500 |

Consistent with the procedure followed in 1958, the book value of the capital stock has been decreased during the year by \$2,903,150 due to capital losses of Canadian National Railways in 1959 arising from the early retirement of steam locomotives and the insufficiency of the related reserve for depreciation. The total of such losses charged to capital stock up to December 31, 1959 amounted to \$9,903,150.

The Trustees present herewith the Balance Sheet at December 31st, 1959.

D. Gordon,
For the Trustees.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

BALANCE SHEET AT DECEMBER 31st, 1959

| ASSETS | LIABILITIES |
|--|--|
| Claims for Principal of Loans— Canadian Northern Railway..... \$312,334,805.10 Grand Trunk Railway..... 118,582,182.33 Grand Trunk Pacific Railway..... 116,006,599.08 Canadian National Railway Company..... 96,936,971.75 <hr style="width: 80%; margin-left: 0;"/> | Capital Stock Owned by Canadian National Railway Company—5,000,000 shares of no par value capital stock.... \$ 368,614,985.02 |
| Claims for Interest on Loans— Canadian Northern Railway..... \$309,702,897.65 Grand Trunk Railway..... 103,250,802.95 Grand Trunk Pacific Railway..... 107,326,622.84 Canadian National Railway Company... 54,501,313.57 <hr style="width: 80%; margin-left: 0;"/> | |
| Transactions of Canadian National Railway System subsequent to January 1st, 1937, affecting the book value of the capital stock of the Securities Trust..... | 98,577,547.14 |
| Securities Held— Collateral Securities—Schedule A.1..... — Other Securities —Schedule A.2..... — <hr style="width: 80%; margin-left: 0;"/> | Amount by which the book value of claims and interest thereon exceeded the initial stated value as of January 1st, 1937..... |
| \$ 1,317,219,742.41 | 948,604,757.39 |
| | \$ 1,317,219,742.41 |

L. J. MILLS,
Comptroller.

CERTIFICATE OF AUDITOR

I have examined the books and records of The Canadian National Railways Securities Trust for the year ended December 31, 1959.

The Collateral and Other Securities, as set out in Schedules A.1 and A.2 attached hereto, were verified by examination or by certificates from the depositaries.

In my opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Trust's affairs at December 31st, 1959, in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1952.

J. A. DE LALANNE,
Chartered Accountant.

Dated at Montreal,
February 26th, 1960.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SCHEDULE A.1

SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT OF CANADA TO THE SECURITIES TRUST

22865-0-8

| LOANS OUTSTANDING | | NOTES AND COLLATERAL HELD | |
|--|--------------------------|--|------------------|
| Canadian Northern Railway: | | | |
| 3½% Loan, Chapter 6, 1911..... | \$ 2,396,099.68 | None. Charge is on premises mortgaged October 4, 1911. | |
| 4% Loan, Chapter 20, 1914..... | 5,294,000.02 | None. | |
| 5% Loan, Chapter 4, 1915..... | 10,000,000.00 | None. | |
| 6% Loan, Chapter 29, 1916..... | 15,000,000.00 | Mortgages dated June 23 and June 26, 1916. | |
| ϕ6% Loan, Chapter 24, 1917..... | 25,000,000.00 | 6% Demand Notes..... | \$ 33,012,414.32 |
| ϕ6% Loan, Vote 110, 1918..... | 25,000,000.00 | 6% Demand Notes..... | 27,203,003.65 |
| ϕ6% Loan, Vote 108, 1919..... | 35,000,000.00 | 6% Demand Notes..... | 40,031,122.27 |
| ϕ6% Loan, Vote 127, 1920..... | 48,611,077.00 | 6% Demand Notes..... | 53,008,779.65 |
| ϕ6% Loan, Vote 126, 1921..... | 44,419,806.42 | 6% Demand Notes..... | 50,259,312.47 |
| ϕ6% Loan, Vote 136, 1922..... | 42,800,000.00 | 6% Demand Notes..... | 46,691,634.60 |
| 6% Loan, War Measures Act, 1918..... | 1,887,821.16 | ϕ6% Demand Notes..... | 5,700,000.00 |
| ϕ6% Equipment Loan, Chapter 38, 1918..... | 56,926,000.82 | 13½% Debenture Stocks..... | 5,109,999.99 |
| ϕ Mortgage covering loans above..... | | 6% Demand Notes..... | 56,858,496.44 |
| Total Canadian Northern..... | \$ 312,334,805.10 | Mortgage dated November 16, 1917..... | |
| Grand Trunk Railway: | | | |
| 6% Loan, Vote 478, 1920..... | \$ 25,000,000.00 | 6% Demand Notes..... | \$ 25,479,226.97 |
| 6% Loan, Vote 126, 1921..... | 55,293,435.18 | 6% Demand Notes..... | 56,646,816.12 |
| 6% Loan, Vote 137, 1922..... | 23,288,747.15 | 6% Demand Notes..... | 23,288,747.15 |
| 4% Loan to G. T. Pacific, Chapter 23, 1913, guaranteed by Grand Trunk..... | 15,000,000.00 | 4% Demand Notes..... | 15,000,000.00 |
| Total Grand Trunk..... | \$ 118,582,182.33 | 4% G.T.P. Debentures..... | 15,000,000.00 |
| Grand Trunk Pacific Railway: | | | |
| 3% Bonds, Chapter 24, 1913..... | \$ 33,048,000.00 | 3% 1st. Mortgage Bonds..... | \$ 33,048,000.00 |
| 6% Loan, Chapter 4, 1915..... | 6,000,000.00 | 4% Sterling Bonds..... | 7,499,952.00 |
| 6% Loan, Vote 441, 1916..... | 7,081,783.45 | Mortgage, June 28, 1916..... | |
| 6% Loan, Vote 444, 1917..... | 5,038,053.72 | Mortgage, October 18, 1917..... | |
| 6% Loan, Vote 110, 1918..... | 7,471,399.93 | Mortgage, October 18, 1917..... | |
| Receiver's Advances, P.C. 635, March 26, 1919..... | 45,764,162.35 | Receiver's Certificates..... | 53,339,162.74 |
| Interest guaranteed by Govt. of Canada..... | 8,704,662.65 | Cremation Certificates, coupons destroyed..... | 8,698,170.42 |
| Interest guaranteed by Provinces of Alberta and Saskatchewan..... | 2,898,536.98 | Cremation Certificates, coupons destroyed..... | 2,925,733.88 |
| Total Grand Trunk Pacific..... | \$ 116,006,599.08 | | |

Forward

RAILWAYS, AIR LINES AND SHIPPING

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SCHEDULE A.1—*Concluded*

SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT OF CANADA TO THE SECURITIES TRUST

| LOANS OUTSTANDING | NOTES AND COLLATERAL HELD |
|---|--|
| Canadian National Railway Company: | |
| 6 % Loan, Vote 139, 1923.....\$ 24,550,000.00 | { 6% Canadian Northern Demand Note.....\$ 12,655,019.57 G.T.P. Receiver's Certificates..... 3,313,530.01 G.T.P. Interest Coupons (Cremation Certificates)..... 1,530,831.96 |
| 5 % Loan, Vote 137, 1924..... 10,000,000.00 | { 5% Canadian Northern Demand Note..... 1,318,315.86 G.T.P. Receiver's Certificates..... 4,691,173.58 G.T.P. Interest Coupons (Cremation Certificates)..... 1,530,822.24 |
| 5 % Loan, Vote 377, 1925..... 10,000,000.00 | { 5% Canadian Northern Demand Note..... 9,496,718.21 G.T.P. Receiver's Certificates..... Cr. 1,422,425.17 G.T.P. Interest Coupons (Cremation Certificates)..... 1,530,802.80 |
| 5 % Loan, Vote 372, 1926..... 10,000,000.00 | { 5% Canadian Northern Demand Note..... 9,062,624.30 G.T.P. Receiver's Certificates..... Cr. 364,898.78 G.T.P. Interest Coupons (Cremation Certificates)..... 1,530,880.56 |
| 5 % Loan, Vote 336, 1929..... 2,932,652.91 | 5 % Canadian National Railway Company Demand Notes... 2,932,652.91 |
| 5 % and 5¼% Loans, Chapter 22, 1931..... 29,910,400.85 | 5 % and 5¼% Canadian National Railway Company Demand Notes..... 29,910,400.85 |
| 5¼% Loans, Chapter 6, 1932..... 11,210,815.56 | 5¼% Canadian National Railway Company Demand Notes... 11,210,815.56 |
| Less: adjustment authorized by the Capital Revision Act, 1937..... Cr. 1,666,897.57 | |
| Total Canadian National Railway Company.....\$ 96,936,971.75 | |
| Total Loans.....\$ 643,860,558.26 | |

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SCHEDULE A.2

SECURITIES TRANSFERRED FROM THE GOVERNMENT OF CANADA TO THE SECURITIES TRUST PURSUANT TO THE PROVISIONS
OF THE CANADIAN NATIONAL RAILWAYS CAPITAL REVISION ACT, 1952

| Description of Issue | Amount Sterling Currency |
|--|--------------------------------|
| | £ |
| Canadian Northern Alberta Rly. Co. 3½% First Mortgage Debenture Stock, due May 4, 1960..... | 534,097 |
| Canadian Northern Ontario Rly. Co. 3½% First Mortgage Debenture Stock, due May 19, 1961..... | 6,294,345 |
| Grand Trunk Pacific Rly. Co. 3% First Mortgage Sterling Bonds, due Jan. 1, 1962..... | 1,754,500 |
| Grand Trunk Pacific Rly. Co. 4% Sterling Bonds, due Jan. 1, 1962..... | 90,900 |

The CHAIRMAN: Would someone move the acceptance of the auditor's reports in respect of the Canadian National Railways and the Canadian National (West Indies) Steamships Limited.

Moved by Mr. McPhillips, seconded by Mr. Smith (*Simcoe North*).

Motion agreed to.

J. A. DE LALANNE
Chartered Accountant
507 PLACE D'ARMES, MONTREAL

March 10, 1960.

TO THE HONOURABLE THE MINISTER OF TRANSPORT,
OTTAWA, CANADA.

Sir:

As auditor of the Canadian National Railway System, I report, through you, to Parliament on my audit of the accounts for the year ended December 31, 1959.

I have signed a separate report in the following terms which, together with the related financial statements, is included in the annual report of the System.

"I have examined the consolidated balance sheet of the Canadian National Railway System as at December 31, 1959 and the consolidated income statement for the year ended on that date. My examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances.

In my opinion, subject to the position with regard to depreciation accruing prior to the adoption of depreciation accounting as referred to in Note 1, the above consolidated balance sheet and the related consolidated income statement are properly drawn up, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, so as to give a true and fair view of the state of the affairs of the System at December 31, 1959 and of the results of its operations for the year ended on that date, according to the best of my information and the explanations given to me and as shown by the books of the System.

I further report that, in my opinion, proper books of account have been kept by the System and the transactions that have come under my notice have been within the powers of the System."

The annual report also contains several financial and statistical schedules which give additional information in regard to the corporate structure of the System, its investments, property and equipment and long term debt, as well as particulars of revenue and expenses and extensive operating statistics.

I shall, therefore, restrict my further comments to a few of those items which appear to me to be the most pertinent and significant at this time.

Property Investment

The investment in properties included in the consolidation increased during the year by a net amount of \$114,308,988 represented by:

| | | |
|---|---------------|----------------------|
| Additions | \$222,069,950 | |
| Less: Retirements | 61,577,523 | |
| | <hr/> | |
| | 160,492,427 | |
| Add: Government of Canada expenditures on Canadian Government Railways | 256,335 | \$160,748,762 |
| | <hr/> | |
| Increase in recorded depreciation— | | |
| Provided from operations in 1959 | 86,310,651 | |
| Less: Charges for retirements | 39,870,877 | 46,439,774 |
| | <hr/> | |
| Net increase | | <u>\$114,308,988</u> |

Hence the 1959 provisions for depreciation are somewhat higher than those for the previous year.

Consistent with the policy adopted in the year 1958, capital losses of \$2,903,150 sustained in 1959 on the early retirement of steam locomotives have been charged against shareholders' equity and do not form part of the recoverable deficit of \$43,588,290.

The total of such capital losses charged to shareholders' equity up to December 31, 1959 amounted to \$9,903,150.

Investments in Affiliated Companies not Consolidated

These increased during the year by an amount \$53,229,359, of which \$52,000,000 applied to Trans-Canada Air Lines, bringing the total investment in and advances to this company to \$140,100,000.

Insurance Fund and Reserve

At December 31, 1959 the Fund consisted of the following:

| | |
|---|--------------|
| Securities—the cost | \$15,693,178 |
| Cash, accrued interest, etc., less accounts payable | 306,822 |
| | <hr/> |
| | \$15,000,000 |

The value of the above securities at December 31, 1959, based on market quotations, was approximately 21% lower than cost. However, no loss is likely to be sustained unless it is found necessary to dispose of any of the securities prior to maturity.

Estimated outstanding losses at December 31, 1959, chargeable against the reserve, amounted to \$771,518. These consisted of some 450 individual claims of varying amounts in respect of losses on buildings, rolling stock, vessels, etc.

Long Term Debt

During the year 1959 there was a net increase of \$168,142,353 in long term debt, being an increase of \$307,250,000 in issues to the public and a reduction of \$139,107,647 in the Government of Canada loans and debentures.

On January 1, 1960 the company issued an additional \$100,000,000 bonds, the proceeds of which were used to further reduce the loans from the Government.

A condition was incorporated in the three public issues of 1959 and that of January 1, 1960 whereby amounts of $\frac{1}{2}\%$ or 1% of the original issues may be purchased quarterly provided the bonds are available in the open market at prices not exceeding the relative original issue prices. The annual cash requirement to implement this condition might reach \$10,000,000.

It may be of interest to note that, while there are relatively small issues maturing in 1960 and 1961, amounts aggregating \$34,464,204 and \$250,000,000 fall due on January 1, 1962 and February 1, 1963 respectively, also that the coupon rates on these bonds are considerably lower than present prevailing interest rates.

Furthermore, the ten years relief from payment of interest on the \$100,000,000 debenture issued to the Government of Canada under the authority of the Capital Revision Act, expires on December 31, 1961.

Shareholders' Equity

Shareholders' equity increased during the year by a net amount of \$19,521,223, as under:

| | |
|---|--------------|
| Additional preferred stock issued | \$22,168,692 |
| Increase in investment in Canadian Government Railways | 256,335 |
| | 22,425,027 |
| Less: Reduction in capital stock of subsidiary companies owned by the public | 654 |
| | 22,424,373 |
| Less: Loss arising from early retirement of steam locomotives | 2,903,150 |
| Net increase | \$19,521,223 |

It might also be mentioned that the authority granted under the Capital Revision Act to the Minister of Finance to purchase annually 4% preferred stock of the company up to a specified limit applies only to the fiscal years 1952 to 1960 inclusive.

Result of Operations—Year 1959

Operations for the year 1959 resulted in a deficit of \$43,588,290 against which advances of \$37,000,000 were received from the Government of Canada, with the balance of \$6,588,290 being carried forward as a current account receivable.

It will be noted in the Income Statement and supporting schedules that there were increases in railway operating revenues for all services other than passenger which declined again in 1959, also that there was a relatively small increase in railway operating expenses, exclusive of depreciation charges, one of the contributing factors being the increased wage awards.

Depreciation charges were somewhat higher while there was an increase of some \$6,400,000 in fixed charges, reflecting the increase in interest-bearing long term debt and the higher prevailing interest rates.

Source of Funds and Fixed Charges

Since operating deficits of the Railway are made good by the Government of Canada and, on the other hand, any surplus is payable to the Government, it is evident that, so long as the funds required for capital expenditures exceed those becoming available from sale of preferred stock and

through depreciation provisions, no cash will be available to repay maturing long term debt and to meet the Purchase Fund conditions except from further increases in borrowings.

While in 1959 the amount contributed by the Government for preferred stock was only \$22,168,000, interest-bearing obligations increased by upwards of \$168,000,000 which further alters the ratio between equity capital and interest-bearing debt.

The annual cost of this increase alone at current effective interest rates is approximately \$10,000,000. In addition, renewals or conversions of short term loans to long term funded debt have, in many instances, been at higher rates of interest. It is inevitable, therefore, that, under present conditions, fixed charges will continue to increase.

General

No further reduction of companies comprising the System was made during the year 1959. However, preliminary steps were taken to effect the merger of four small subsidiaries that own short lines in the United States and to dissolve two small land companies.

The responsible officers are continually studying the accounting methods and procedures with a view to modernization and improvement. Present plans call for quite extensive changes in certain areas and, while these can only be completed over a period of years, good progress appears to have been made during the past year.

I have received the fullest co-operation and assistance from the officers and members of the staff of the Accounting and Finance Department and all others whom I have had occasion to consult in the carrying out of my duties, for which I express my sincere appreciation.

Yours faithfully,

J. A. de Lalanne,
Chartered Accountant

J. A. DE LALANNE
CHARTERED ACCOUNTANT

507 Place d'Armes, Montreal

FEBRUARY 3, 1960.

To the Honourable the Minister of Transport,
Ottawa, Canada.

Sir:

As auditor of Canadian National (West Indies) Steamships, Limited, I report, through you, to Parliament on my audit of the accounts for the year ended December 31, 1959.

I have signed a separate report, in the following terms which, together with the relative financial statements, is included in the annual report of the Corporation—

I have examined the balance sheet of Canadian National (West Indies) Steamships, Limited as at December 31, 1959 and the statement of capital surplus for the year ended on that date. My examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances.

In my opinion, the above balance sheet and the related statement of capital surplus are properly drawn up, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, so as to give a true and fair view of the state of the affairs of the Corporation at December 31, 1959 and of the transactions for the year ended on that date, according to the best of my information and the explanations given to me and as shown by the books of the Corporation.

I further report that, in my opinion, proper books of account have been kept by the Corporation and the transactions that have come under my notice have been within the powers of the Corporation.

No statement of income and expense is included for the year 1959 as the Corporation is no longer engaged in shipping operations and the transactions, being of a special nature related to the termination of the Corporation's affairs, have been recorded through capital surplus account.

I offer the following further comments:

Cash in Banks

The annual instalment on principal of \$448,000 and interest of \$112,000 were received during the year on account of the sale of vessels and were placed on time deposit with the Corporation's bankers.

Investments in Securities

There were no purchases or disposals during the year 1959. Based on market quotations as at December 31, 1959, the Government bonds and other securities owned carried a value of \$2,608,409 as compared with \$2,779,146 at the end of the previous year, the deficiency of \$458,176, as compared with cost, having increased from 9% to 15%.

Inventory of Supplies

Certain of the materials and supplies on hand after the sale of vessels were disposed of during the year. The remaining supplies have now been written down to their estimated salvage value, in view of the lack of demand, the major items being suitable for use only on the vessels sold or on other similar-type vessels.

Proceeds From Sale of Vessels

Total payments of \$1,008,000 have been received to date on account of principal, leaving a balance of \$1,792,000 on the Agreement of Sale at December 31, 1959 to be received in four annual instalments of \$448,000 together with interest at 5% per annum on August 19, 1960 to 1963.

The Corporation holds an irrevocable letter of credit issued by the purchaser and confirmed by the Bank of America.

Government of Canada Loan and Advance

The semi-annual instalments and the relative interest have been paid on their due dates.

Outstanding Claims

At December 31, 1959 there were still some unsettled claims for damages filed against the Corporation in prior years, but in view of the uncertainty of the amounts involved no specific reserve has been set up in the Corporation's accounts for eventual settlement of such claims.

War Claims

No payments were received during the year on the above claims, the balance outstanding remaining at \$400,933.

In view of the uncertainty of future recoveries, which are dependent on the adequacy of the War Claims Fund, no amount has been set up as an asset in the accounts at December 31, 1959 in connection with these claims.

I have received the complete co-operation of the officers and staff of the Corporation in the carrying out of my duties, for which I express my sincere appreciation.

Yours faithfully,

J. A. DE LALANNE,
Chartered Accountant.

The CHAIRMAN: We now have items 420, 421 and 429 as listed in the Main Estimates for 1960.

| | |
|---|---------------|
| Item 420. Prince Edward Island Car Ferry and Terminals—(Deficit 1960) | \$ 2,299,000 |
| Item 421. Newfoundland Ferry and Terminals—(Deficit 1960) | \$ 5,410,000 |
| Item 429. Maritime Freight Rates Act—Payments to the railway companies operating in the select territory designated by the act, of the difference occurring on account of the application of the act, between the tariff tolls and normal tolls under approved tariffs (estimated and certified to the Minister of Transport by the Canadian National Railway Company and approved by auditors of the said company respecting the eastern lines of the Canadian National Railway and in the case of the other railways by the board of transport commissioners for Canada) on all traffic moved during the calendar year 1960 | \$ 14,225,000 |

Mr. BENIDICKSON: All these items will be returned to the house for debate?

The CHAIRMAN: Yes.

Mr. FISHER: May I ask a question in respect of the car ferries. What union has the contract with the employees on the ferries?

Mr. GORDON: The C.B.R.T.

Mr. FISHER: Mr. Banks does not have this.

Mr. GORDON: No.

I would like to take this opportunity of correcting a statement you made in the House of Commons, Mr. Fisher, to the effect that I had been personally responsible for bringing Mr. Harold Banks into Canada. Mr. Banks arrived in Canada several years before I had anything to do with the Canadian National Railways. I gave you that information during the committee hearings of 1958. I would refer you to the page at which my statement appears. It is page 152 of the minutes of proceedings and evidence of the railways, air lines and shipping committee of 1958. I hope this will make it clear that I had nothing to do with this fellow.

Mr. FISHER: If I remember correctly you did give an indication he was encouraged to come here by management.

Mr. GORDON: No, I did not. The statement I made is this. At the hearings you said:

I have heard it said there is a certain poetic justice in this situation since Mr. Banks was brought to this country by the employer organizations. Did the Canadian National Railways have anything to do with bringing him here to the organization?

My reply was:

Back in 1948 and 1949—this is before my time and I am talking from hearsay—there was a dispute of this very company in which it was

alleged that the then existing union was heavily infiltrated by communists and there was a strong communist influence in that union. There came into being a jurisdictional dispute in which Mr. Banks, dealing as the head of the S.I.U. made a big bid to take over the union. Now, when you say he was brought in, I do not think that is the case. He came in. But there is no doubt about it in the course of it all, he formed a union which made an agreement with the company at that time and the other union lost the right of representing the employees.

The circumstances under which he came into Canada I do not know, and my files do not reveal it.

The CHAIRMAN: Items 420, 421 and 429 agreed to. We are now on a friendly note and the C.N.R. items are passed. The T.C.A. is left. If you think as much of the T.C.A. as Mr. Gordon does as one of the directors, perhaps you will not take too long to pass it tomorrow.

Mr FISHER: Is he going to stay here as one of the directors?

Mr. BENIDICKSON: I wonder if I might advance a suggestion for tomorrow in connection with the T.C.A. I regret that I cannot be here.

I know the T.C.A. is a direct subsidiary of the Canadian National Railways; there is a parent and a child relationship. In the past as a consequence of that there has been some advantage in having the T.C.A. follow immediately after the hearings in connection with the C.N.R. I am not, however, satisfied that this is necessarily a practical way to proceed. Conceivably we could take up the T.C.A. on another day and not have the officers of the T.C.A. standing by here. Also, we are under pressure having three meetings a day for two or three days and for a longer period if the T.C.A. follows the C.N.R.

I would suggest for the consideration of the committee that next year they might consider splitting up the hearings of the C.N.R. and the T.C.A. In that event we could perhaps have the T.C.A. appear in the week following the C.N.R. In that way members of parliament would not find they had such a long stretch of three meetings a day. I know how hard it is for the minister and others to attend these meetings.

Mr. HEES: Yes.

The CHAIRMAN: We will be very glad to consider your suggestion when we meet in your absence tomorrow. I will bring it up in the committee when we are taking up the report of the T.C.A. I think you mean the difficulty is we get tired in dealing with the C.N.R. and may not deal with the T.C.A. so well.

Mr. BENIDICKSON: I was also thinking that we are working on an unpredictable basis and it means that the officers of the T.C.A. are waiting a certain number of hours, and in addition we have four or five days of unusual committee obligations in addition to our other obligations in the house and we get out of kilter.

The CHAIRMAN: That merits discussion.

Mr. BROOME: We are to have a private meeting when suggestions such as this may be considered, are we not?

The CHAIRMAN: Yes, we shall have a meeting before we put in our report to parliament.

Mr. BROOME: That is understood?

The CHAIRMAN: Yes, it is understood.

Mr. FISHER: I would like to ask before we lose Mr. Gordon if he has heard any jokes about the Jacques Cartier bridge?

Mr. GORDON: I do not deal in jokes. I find life a very serious matter.

The CHAIRMAN: Just before you go I think I would be expressing the feelings of the members of the committee when, on their behalf, I extend to Mr. Gordon and his officials our appreciation of the efficient manner in which he has presented his annual report, and dealt with the graphs. Also for his courtesy and hard work in dealing with every question that came up that he could deal with. I know I am expressing the good wishes of every member of the committee in thanking Mr. Gordon, his vice-presidents, and his officers who have prepared this elaborate report. I feel sure I am extending to you their very good wishes and appreciation.

Mr. G. R. MCGREGOR (*President, Trans-Canada Air Lines*): What time shall we meet tomorrow, Mr. Chairman?

The CHAIRMAN: I think we had better meet at 9 o'clock in the morning. I suppose that all members of the committee received your kind letter. You do one better than Mr. Gordon. He does not give us a ride on the trans-Canada.

Mr. GORDON: Oh, he does it all the year round.

Mr. HEES: Touché!

The committee adjourned.

APPENDIX "A"

ANSWER TO A QUESTION ASKED

BY MR. FISHER ON WEDNESDAY

AFTERNOON

Accounting:

A close relationship is maintained with CPR counterparts on all accounting and financial matters connected with joint ventures.

1. Joint accounting committees deal with:
 - Toronto Terminal Rly. Co.
 - Northern Alberta Rly. Co.
 - Vancouver Hotel Co. Ltd.
2. Liaison re jointly-used facilities, e.g.:
 - CPR terminal facilities at Quebec City.
 - CNR terminal facilities at Saint John, N.B.
 - CNR terminal facilities at Ottawa.
 - Joint trackage and facilities between Toronto and Hamilton.
3. Passenger Pool accounting and financial matters.

Communications:

Close co-operation or pooled efforts play a large part in day-to-day activities.

1. Telegrams and cables are accepted by both companies for exclusive handling of the other, and passed to the other for transmission.
2. Joint studies are undertaken for:
 - reciprocal closing of offices.
 - joint office operation.
 - joint installation (50-50 basis) of teleprinter or deskfax equipment permitting customer to handle traffic to both companies.
3. Private wire and facsimile service is pooled with few exceptions, mostly in the supply of voice circuits.
4. Radio program transmission revenues are pooled and facilities assigned on equal basis. In areas of joint operation, each assists the other in the event of wire trouble by taking over operations and maintaining continuity of service.
5. Microwave systems are built jointly by the two companies in areas of operation by both companies (in the case of Newfoundland and NCS the microwave systems are owned and operated by the CNR). The basic plant, i.e., towers, building, roads, equipment for the transmission of television programmes, etc. is constructed with equal capital funds of both parties. The television revenues are divided equally between CNR and CPR. When the equipment for general communication purposes is installed, the costs involved will be divided on an agreed upon basis.
6. Telex, the latest co-operative effort of CN and CP Communications is pooled, except for areas exclusive to Canadian National which for the present are Prince Edward Island and Newfoundland, except the City of St. John's. In the pooled areas, Telex is financed equally by both companies and the revenues are shared equally.

7. Cable plants within towns and cities are installed, either on an exclusive or joint basis with reciprocal privileges afforded both companies, to reach the premises of customer either on a moderate or no-charge basis, depending upon the type of service to which the cable facility is put.

Operation:

Co-operation between this department and its counterpart in the CPR is carried out at practically all levels. Both railways are frequently in touch regarding technical matters of mutual interest and both are represented in various technical associations. For example:—

1. Consultation and joint studies in preparing submissions to the Board of Transport Commissioners and the National Energy Board, either directly or through the Railway Association on matters of common interest, such as:
 - New Board Orders, or revision to existing Orders dealing with such matters as reflectorization of crossing signs and freight cars, pipeline crossings, wire crossings, flammable liquid facilities, signal regulations, and fire matters. In addition, representations for relief from various regulatory measures in cases where it is mutually advantageous to take such action.
2. Standards and specifications relating to bridges and roadway.
3. Methods and practices for track and structures maintenance and construction, including interchange of test information.
4. Problems handled through the Railway Association of Canada, such as:
 - The new Code of Air Brake Rules.
 - The uniform interpretation of operating rules.
 - The adoption of co-operative measures for supplying special types of cars.
 - The initiation and interpretation on regulations for protective services for perishable commodities.
 - The interpretation of car service rules.
5. The Associate Committee on Railway Problems which was formed last year by the two railways in conjunction with the National Research Council. This committee is investigating technical problems relating to locomotives and cars.
6. The Committee on Standardization of Freight Car Equipment which has been active for some years and has developed standard specifications used by both railways in purchasing new equipment. These specifications cover box cars, auto cars, stock cars, flat cars, gondola cars and hopper cars. The general procedure is to hold bi-monthly meetings and to exchange technical data, ideas and designs for new equipment. Shop practices are also discussed and reviewed with a view to improving procedure.
7. The preparation of timetables where joint operation is involved.
8. Developing jointly proper methods of loading specific commodities.
9. Charges for special services.
10. Routing of trains over each other's lines in case of trouble.
11. Lending of equipment under emergency conditions.

Personnel:

The major areas where there is cooperation between the CNR and CPR on matters of personnel are those related to labour relations, in particular, with respect to the negotiating of collective agreements.

1. The Joint Conference Committee representing organization of non-operating employees carries on concerted negotiations with CNR, CPR and other companies. This necessitates, through the direction of joint committees of the companies, cooperation in the preliminary work of collecting and compiling data and in the preparation of written statements and arguments, as well as joint presentations in negotiations and before boards of conciliation.
2. All matters affecting employees of joint companies, including the negotiation of their labour agreements, are dealt with jointly, the policies and directives being formulated by CNR-CPR officers in co-operation and subsequently interpreted by the manager of the joint company involved.
3. In so far as operating employees are concerned, although collective agreements are bargained separately for CNR and CPR, a good deal of cooperation exists on an informal basis through the exchange of information and experience. Since this co-operation is entirely informal, neither company is under any obligation to use data exchanged but because of the similarity of operating conditions it is essential to consider such information.
4. Informal exchange of information is also common concerning procedures and policies with respect to employee relations matters outside the scope of labour negotiations.

Public Relations:

The main area of cooperation between the CNR and the CPR as far as this phase of company operations is concerned is in the field of cooperative advertising. Examples are:

1. Provision of a joint or pool service, e.g. teletype and telex services, pool train passenger services.
2. Special fares on a common basis, e.g. bargain coach, family fare plans, exhibitions, etc.

Research and Development:

Briefly, the cooperative action with CPR in this area is along the following lines:

- | | |
|--|---|
| 1. Standardizing equipment. | 4. Joint economic studies of new lines. |
| 2. Pooling of service studies. | 5. Pooling of equipment. |
| 3. Pooling of or common use of trackage. | 6. Common use of terminals. |
| 7. Industrial Switching Agreements. | |

*Traffic:**Freight:*

1. Cooperation with the CPR occurs mostly with respect to the negotiation and publication of rates. On the question of action to be taken between competitive points, officers of both railroads check with one another almost daily. In the case of disagreement, either line informs

the other of its intention to take independent action. Thus, cut-throat competition in rate-making is definitely avoided.

2. Details of tariff amendments are checked between the tariff compilers of both companies and effective dates agreed upon. Other matters are also frequently the subject of discussion and agreement with the CPR and both companies deal with the shipping public through the Railway Association of Canada or the Canadian Freight Association.

Passenger:

1. The Canadian Passenger Association, of which both railways are members, provides information in relation to the tariffs, fares and ticket regulations of the member lines and avoids cut-throat competition by enabling the lines to confer, advise and act in mutual cooperation.
2. Following passage of the Canadian National-Canadian Pacific Act, a Passenger Service Pool Arrangement was put into effect between Montreal-Quebec, Montreal-Toronto and Ottawa-Toronto. Revenues from passenger trains operated in the area are split on a 50-50 basis and expenses are equalized as far as possible. Exceptions are made for mail, express and dining car services.

President's Office.

April 14, 1959.

APPENDIX "B"

(Filed in answer to question by Mr. Fisher, M.P., in afternoon of Wednesday, March 30, 1960.)

CANADIAN NATIONAL RAILWAYS
CANADIAN LINES
Mid-month count of employees by regions and by months—Year 1959

| — | Jan. | Feb. | March | April | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. |
|----------------------|--------|--------|--------|--------|---------|---------|---------|---------|---------|---------|---------|--------|
| Atlantic Region..... | 20,099 | 19,300 | 20,564 | 19,757 | 20,094 | 20,839 | 21,718 | 22,244 | 22,327 | 22,038 | 21,224 | 20,381 |
| Central Region..... | 43,397 | 43,501 | 43,516 | 43,585 | 44,664 | 45,715 | 46,031 | 45,438 | 45,117 | 44,077 | 43,679 | 42,627 |
| Western Region..... | 31,526 | 31,236 | 31,077 | 31,840 | 34,543 | 36,200 | 36,614 | 36,591 | 36,012 | 34,762 | 33,269 | 31,412 |
| Headquarters..... | 3,942 | 3,960 | 3,935 | 3,969 | 4,001 | 4,027 | 4,060 | 4,050 | 4,052 | 4,030 | 4,036 | 4,053 |
| TOTALS..... | 98,964 | 97,997 | 99,092 | 99,151 | 103,302 | 106,781 | 108,423 | 108,323 | 107,508 | 104,907 | 102,208 | 98,473 |

Average for year: 102,927 (Canadian Lines)

HOUSE OF COMMONS

Third Session—Twenty-fourth Parliament

1960

SESSIONAL COMMITTEE

ON

RAILWAYS, AIR LINES AND SHIPPING

Owned and Controlled by the Government

Chairman: HONOURABLE W. EARL ROWE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

THURSDAY, MARCH 31, 1960

TRANS-CANADA AIR LINES

Annual Report for 1959—Auditor's Report to Parliament
for 1959—Capital Budget for 1960

WITNESS:

Mr. G. R. McGregor, President, Trans-Canada Air Lines.

SESSIONAL COMMITTEE ON RAILWAYS, AIR LINES AND SHIPPING
owned and controlled by the Government

Chairman: Hon. W. EARL ROWE

Vice-Chairman: C. E. CAMPEAU

and Messrs.

| | | |
|--|---------------------------------|--------------------------------|
| Badanai, | Creaghan, | McPhillips, |
| ¹ Benidickson, | Drysdale, | McWilliam, |
| Brassard (<i>Lapointe</i>), | Fisher, | Mitchell, |
| Broome, | Fraser, | Monteith (<i>Verdun</i>), |
| ² Browne (<i>Vancouver-Kingsway</i>), | Grills, | Pascoe, |
| Carter, | Horner (<i>Jasper-Edson</i>), | Robinson, |
| Chevrier, | Kennedy, | ³ Smallwood, |
| Chown, | Martini, | Smith (<i>Simcoe North</i>). |

Antoine Chasse,
Clerk of the Committee

1. Replaced Mr. Granger
 2. Replaced Mr. Bourbonnais
 3. Reinstated at 2.30 o'clock, p.m., 31st March, 1960. (Vice Mr. Howe)
- } on 28th March, 1960.

MINUTES OF PROCEEDINGS

The Senate, Room 356-S.
Thursday, March 31, 1960.
(7)

The Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government met at 9:00 o'clock a.m. The Chairman, the Honourable W. Earl Rowe, presided.

Members present: Messrs. Madani, Broome, Browne (Vancouver-Kingsway), Carter, Chevrier, Gault, Gault, Griffin, Griffin, Griffin, Kennedy, Martin, McPhillips, Mitchell, Pascoe, Robinson, Rowe, Smith (Simons North).

ORDER OF REFERENCE

THURSDAY, March 31, 1960.

Ordered,—That the name of Mr. Smallwood be substituted for that of Mr. Howe on the Sessional Committee on Railways, Air Lines and Shipping.

Attest

L.-J. RAYMOND,

Clerk of the House of Commons.

The Committee proceeded to the consideration of the Annual Report of the Trans-Canada Air Lines for the year ending December 31, 1959. Mr. McGregor was called. Charts, graphs and coloured slides relating to the Trans-Canada Air Lines operations were projected on a screen and were commented upon by Mr. McGregor. Questions thereon were answered by the President of the Trans-Canada Air Lines and answers to some of the questions were also given with the Clerk of the Committee and appear as appendices "A", "B", "C", "D" and "E" to this day's report of Minutes of Proceedings and Evidence.

On motion of Mr. Chown, seconded by Mr. Fraser, the Annual Report of the Trans-Canada Air Lines for the year ending December 31, 1959 was approved.

On motion of Mr. Pascoe, seconded by Mr. Griffin, the Capital Budget of the Trans-Canada Air Lines for the year 1960 was approved.

The Committee then considered the Auditor's Report on the Trans-Canada Air Lines.

Mr. J. A. de Lausanne, C. A. was called and questioned.

Mr. McGregor contributed answers to specific questions resulting from Mr. de Lausanne's examination.

On motion of Mr. Fraser, seconded by Mr. Drysdale, the report of the Auditor was approved.

Mr. Browne (Vancouver-Kingsway), rising on a question of privilege, stated that he had not availed himself of the privilege granted that a member from Mr. Gordon the names of the firms referred to in the report of the Canadian National Railways, that he had proposed and was asking for the previous day, because he did not feel he should reveal information that would not be communicated to all Members of the Committee.

On the suggestion of Mr. Drysdale, the Chairman extended his thanks to Mr. McGregor and his officials for their helpful cooperation in the work of the Committee.

At 12:30 o'clock p.m. the Committee adjourned to the next meeting.

Arthur Gault,
Clerk of the House of Commons.

SESSIONAL COMMITTEE ON RAILWAYS, AIR LINES AND SHIPPING

owned and controlled by the Government

ORDER OF BUSINESS

Thursday March 31, 1960

Ordered: That the name of Mr. Smallwood be substituted for that of Mr. Howe on the Sessional Committee on Railways, Air Lines and Shipping.

| | | |
|----------------------------|----------------|----------------------|
| Bedard | Granger | McPhillips |
| Benedictson | Hoy | McWilliam |
| Brassard (RAYMOND) | Irwin | Mitchell |
| Brown | Clair | Montath (Verdun) |
| Brown (Vancouver-Kingsway) | Grill | Pascoe |
| Cartier | Horne (Jasper) | Robinson |
| Chevrier | MacKay | Smallwood |
| Chown | Martin | Smith (Simcoe North) |

Antoine Chasse,
Clerk of the Committee

1. Replaced Mr. Granger
2. Replaced Mr. Bourbonnais at 2:30 March, 1960.
3. Reinstated at 2:30 o'clock, p.m. on March, 1960. (Vice Mr. Howe)

MINUTES OF PROCEEDINGS

EVIDENCE

The Senate, Room 356-S.

THURSDAY, March 31, 1960.

(7)

The Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government met at 9:00 o'clock a.m. The Chairman, the Honourable W. Earl Rowe, presided.

Members present: Messrs. Badanai, Broome, Browne (*Vancouver-Kingsway*), Carter, Chevrier, Chown, Drysdale, Fisher, Fraser, Grills, Kennedy, Martini, McPhillips, Mitchell, Pascoe, Robinson, Rowe, Smith (*Simcoe North*).

In attendance: The Honourable George Hees, and the following officials of the Trans Canada Air Lines: Mr. G. R. McGregor, President; Mr. W. S. Harvey, Comptroller; Mr. R. C. MacInnes, Director of Public Relations; Mr. S. M. Sadler, Assistant Comptroller; Mr. N. E. Taylor, Chief of Economic Research.

The Committee proceeded to the consideration of the Annual Report of the Trans-Canada Air Lines for the year ending 31st December, 1959.

Mr. McGregor was called.

Charts, graphs and coloured slides relating to the Trans-Canada Air Lines operations were projected on a screen and were commented upon by Mr. McGregor. Questions thereon were answered by the President of the Trans-Canada Air Lines and answers to some of the questions were filed later with the Clerk of the Committee and appear as appendices "A", "B", "C", "D" and "E" to this day's report of Minutes of Proceedings and Evidence.

On motion of Mr. Chown, seconded by Mr. Fraser, the Annual Report of the Trans-Canada Air Lines for the year ending December 31st, 1959 was approved.

On motion of Mr. Pascoe, seconded by Mr. Grills, the Capital Budget of the Trans-Canada Air Lines for the year 1960 was approved.

The Committee then considered the Auditor's Report on the Trans-Canada Air Lines.

Mr. J. A. de Lalanne, C. A. was called and questioned.

Mr. McGregor contributed answers to specific questions arising out of Mr. de Lalanne's examination.

On motion of Mr. Fraser, seconded by Mr. Drysdale, the said Report was approved.

Mr. Browne (*Vancouver-Kingsway*), rising on a question of privilege, stated that he had not availed himself of the privilege granted him to receive from Mr. Gordon the names of the firms referred to in the motion concerning the Canadian National Railways, that he had proposed and later withdrawn, the previous day, because he did not feel he should receive information that would not be communicated to all Members of the Committee.

On the suggestion of Mr. Drysdale, the Chairman extended the Committee's thanks to Mr. McGregor and his officials for their invaluable contribution to the work of the Committee.

At 12:30 o'clock p.m. the Committee adjourned to the call of the Chair.

Antoine Chassé,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

The Senate Room 356-S
THURSDAY, March 31, 1960
(7)

The Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government met at 9:00 o'clock a.m. The Chairman, the Honourable W. Earl Rowe, presided.

Members present: Messrs. Bedard, Broome, Brown, Brown-Kingsway, Carter, Chevrier, Chow, Dwydale, Fraser, Grills, Kennedy, Martin, McPhillips, Mitchell, Pascoe, Robinson, Rowe, Smith (Simcoe North).

in attendance: The Honourable George Hees, and the following officials of the Trans-Canada Air Lines: Mr. G. H. McGregor, President; Mr. W. S. Harvey, Comptroller; Mr. R. C. Maclean, Director of Public Relations; Mr. S. M. Sadler, Assistant Comptroller; Mr. N. E. Taylor, Chief of Economic Research. The Committee proceeded to the consideration of the Annual Report of the Trans-Canada Air Lines for the year ending 31st December, 1959.

Mr. McGregor was called.

Charts, graphs and coloured slides relating to the Trans-Canada Air Lines operations were projected on a screen and were commented upon by Mr. McGregor. Questions thereon were answered by the President of the Trans-Canada Air Lines and answers to some of the questions were filed later with the Clerk of the Committee and appear as appendices "A", "B", "C", "D" and "E" to this day's report of Minutes of Proceedings and Evidence.

On motion of Mr. Chow, seconded by Mr. Fraser, the Annual Report of the Trans-Canada Air Lines for the year ending December 31st, 1959 was approved.

On motion of Mr. Pascoe, seconded by Mr. Grills, the Capital Budget of the Trans-Canada Air Lines for the year 1960 was approved.

The Committee then considered the Auditor's Report on the Trans-Canada Air Lines.

Mr. J. A. de Laigne, C. A. was called and questioned.

Mr. McGregor contributed answers to specific questions arising out of Mr. de Laigne's examination.

On motion of Mr. Fraser, seconded by Mr. Dwydale, the said Report was approved.

Mr. Browne (Vancover-Kingsway), rising on a question of privilege, stated that he had not availed himself of the privilege granted him to receive from Mr. Gordon the names of the firms referred to in the motion concerning the Canadian National Railways, that he had proposed and later withdrawn the previous day, because he did not feel he should receive information that would not be communicated to all Members of the Committee.

On the suggestion of Mr. Dwydale, the Chairman extended the Committee's thanks to Mr. McGregor and his officials for their invaluable contribution to the work of the Committee.

At 12:30 o'clock p.m. the Committee adjourned to the call of the Chair.

Antoine Chasse
Clerk of the Committee

EVIDENCE

THURSDAY, March 31, 1960

9:30 a.m.

The CHAIRMAN: Gentlemen, if you will come to order we will proceed. Yesterday Mr. Drysdale and Mr. Broome, and some of you gentlemen, mentioned that you thought—after we started with the C.N.R.—we would make just as much progress by questioning on the graphs as we went along, rather than the procedure we adopted. I think, upon reflection, you were right. I think that probably we can make more progress by dealing with them as we go along, when they are fresh in your mind, rather than trying to do as we did with the C.N.R. What is your pleasure, gentlemen?

Mr. BROOME: I think that would be better, Mr. Chairman. Then you have finished with that subject and really need not revert back to it.

The CHAIRMAN: I think that will be in order, then. Is that satisfactory to you all?

Agreed.

The CHAIRMAN: Then, gentlemen, we will proceed that way. The first order of business, of course, is to call on Mr. Gordon McGregor, President of T.C.A.; and he, in turn, will introduce to you his associates, executives assistants, and so forth. Mr. McGregor.

Mr. G. R. MCGREGOR (*President, Trans-Canada Air Lines*): Thank you, Mr. Chairman. I have with me Mr. Harvey, the company's comptroller; Mr. MacInnes, director of public relations; Mr. Sadler, assistant comptroller, and Mr. Taylor, chief of economic research. I hope that between us we can answer any questions that come up.

I am very glad to hear that the chairman has suggested that the procedure adopted yesterday be modified slightly, because I think it will be better if we deal with the slides as we go along. I will give a brief description of each slide—and then I will pause. If there are any questions, perhaps you could ask them then; otherwise, to save time, I will ask for the next slide. I think the slide presentation is somewhat different from the C.N.R.'s. I did not see the C.N.R.'s, but our slide presentation is comparatively short, even with the related comments. The time required would be lengthened by any questioning. The presentation takes about an hour. It is divided into two sections. The first is statistical and is the meat of the annual report, with additions and explanatory comment. Most of the slides cover a ten year period: some of them longer.

The sources of the slide material are all T.C.A.'s own statistics, with the few exceptions that have been taken from D.B.S., A.T.A. or I.A.T.A. records.

The second section of the slide presentation consists of coloured slides depicting the actual work of the air line. I think they will be of interest. They have been selected on that basis. Again, if there are any questions or comments, if you would interject them I will be very pleased to answer them.

The weather, as you will have seen, is, to say the least, doubtful. I have been in touch with Montreal this morning: there is at the moment a 400-foot ceiling and half a mile visibility at the airport. If this does not

SESSIONAL COMMITTEE

deteriorate, the lunch flight will take place as planned. The plans for the flight—to refresh your memory on the contents of the letter of invitation—are that the buses will leave from the centre block main entrance at 11:45. I would ask that we do our best to make that an actual departure at 11:45, because I am committed to get you all back here at 2:20, and if we start off with a bit of a delay, this may become cumulative.

Gentlemen, with those remarks, if I can go ahead with the slide presentation, I will. May we have the lights out, and the slides, please.

Mr. MCGREGOR: Gentlemen, the first slide shows a comparison of the principal changes in the basic factors of the air line operation between 1958 and 1959. The operating cost per available ton mile is the first line, 37.08 cents; down, I am glad to say, from 38.03 cents in 1958.

The planned passenger load factor—that is the percentage of seats occupied to seats available for sale—was 68.4 per cent in 1959, which is a planned downward trend from 1958. You will remember that we have been striving to get that eventually down to 65 per cent load factor. Actually, however, the load factor, shown on the third line, that was achieved was 66.5 per cent, which was a very sharp and unsatisfactory drop from the 69.3 per cent that was achieved in 1958.

The weight load factor is the same thing as the passenger load factor, but applied to the total available lift of the aircraft in relation to the actual payload carried. That is always considerably less than the passenger load factor, and you will see that in 1959 it was 58.4 per cent—also down from the 1958 figure.

The operating cost per revenue ton mile was 63.52 cents, only slightly down from the 63.63 cents in 1958—the revenue per ton mile, of course, being a function of the load factor and the actual cost of operating the ton mile capacity.

Average revenue per revenue ton mile is shown on the next line, and that includes incidental revenues.

Operating profit per revenue ton mile dropped from 1.35 cents in 1958 to 1.16 cents in 1959.

The size of the total transportation job that was done is shown in the next line, revenue ton miles actually operated being 208 million; up from 185,500,000 in 1958. The operating profit is \$2,413,000 as against \$2,513,000, and the non-operating expenses increased to \$2.26 million, reflecting principally the addition of investment of capital in the air line in 1959 over 1958, with its consequent increase in interest charges.

The net income was \$152,554 against \$547,429 in 1958.

Mr. FRASER: May I ask a question here?

The CHAIRMAN: Yes.

Mr. FRASER: Your operating profit there you show as \$2,413,000, but your net income is \$152,000. Is that not owing to the fact that you took more depreciation off this year?

Mr. MCGREGOR: Well, we did not increase the rate of depreciation, but more depreciation was charged. The depreciation is in that first figure of \$2,413,000. The principal cause for the rise in non-operating expenses was interest on investment.

Mr. FRASER: But your depreciation this year may take up \$2,100,000 more?

Mr. MCGREGOR: That is correct, sir. This was due to some new aeroplanes. We did not increase the rate of depreciation on any one type.

Mr. FRASER: And what rate do you use?

TRANS-CANADA AIR LINES

COMPARISON OF 1959 FINANCIAL RESULTS WITH 1958

| | <u>1959</u> | <u>1958</u> |
|---|--------------------------|--------------------|
| OPERATING COST PER AVAILABLE TON MILE ----- | 37.08 [¢] ----- | 38.03 [¢] |
| PLANNED PASSENGER LOAD FACTOR ----- | 68.4% ----- | 69.1% |
| ACTUAL PASSENGER LOAD FACTOR ----- | 66.5% ----- | 69.3% |
| WEIGHT LOAD FACTOR ----- | 58.4% ----- | 59.8% |
| OPERATING COST PER REVENUE TON MILE ----- | 63.52 [¢] ----- | 63.63 [¢] |
| *AVERAGE REVENUE PER REVENUE TON MILE ----- | 64.68 [¢] ----- | 64.98 [¢] |
| OPERATING PROFIT PER REVENUE TON MILE ----- | 1.16 [¢] ----- | 1.35 [¢] |
| REVENUE TON MILES ----- | 208,208,221 ----- | 185,516,382 |
| OPERATING PROFIT ----- | \$2,413,477 ----- | \$2,513,986 |
| NON-OPERATING EXPENSES ----- | \$2,260,923 ----- | \$1,966,557 |
| <u>NET INCOME</u> | <u>\$ 152,554</u> | <u>\$ 547,429</u> |

* INCLUDING INCIDENTAL REVENUES

Mr. MCGREGOR: It varies as between aircraft types. In the case of the Viscounts we take a basis of nine years, with a small residual figure. In the case of Super Constellations it is seven years, with a small residual value. The other elements of our fleet are both depreciated to their residual value. The depreciation period is based on an estimate as to the useful life of the aeroplane from the standpoint of passenger acceptability.

Mr. FRASER: Thank you.

Mr. MCGREGOR: This is an historical slide of the air lines' achievement over its corporate life with respect to losses and surpluses. When the line began in 1937 it only operated for part of that year, which is why that little red stub downwards was plotted half width. 1938 was a full year operation and was a deficit of just under \$1 million.

In 1939 that actually improved. How much effect the beginning of the war had on that, I am not in a position to say, but in 1940 the full war effect was felt, and many of you will remember that all flights were operated completely full with priorities applying to the sale of seats. The air lines' capacity was under strict limitation, it could not buy additional aircraft or, for that matter, employ people who were capable of contributing to the war effort in the services. That condition of diminishing surpluses applied through the war period to 1945.

At the conclusion of the war the effect set in with a drop in the amount of domestic air travel, together with heavy expenditures to expand the fleet, and those losses increased sharply through 1946 to 1949.

In 1950 the loss was sharply reduced from a total of \$4.3 million in 1949 to \$1.3 million. In 1951 we went into the black and the company has remained there since, in varying amounts.

Mr. FRASER: May I ask a question on that? Did the aeroplane crashes and one thing and another in the States this year cause any considerable drop in your business?

Mr. MCGREGOR: It is very difficult to answer that. We believe we have noted some effect. There was a time when the traffic was extremely sensitive to accidents and then it gradually disappeared; but we think we have seen the effect of this in February. In January our traffic was almost exactly on the forecast, but in February we have experienced an undershoot, and this again is true in March. I think it is the cumulative effect of the minor epidemic of accidents that have occurred in the United States and elsewhere.

Mr. BROOME: Mr. McGregor, would you have the figures on the total of losses and total of profits, to give an idea where the system—I should assume it would be just about in balance at the present moment. I am just trying to gauge red against black.

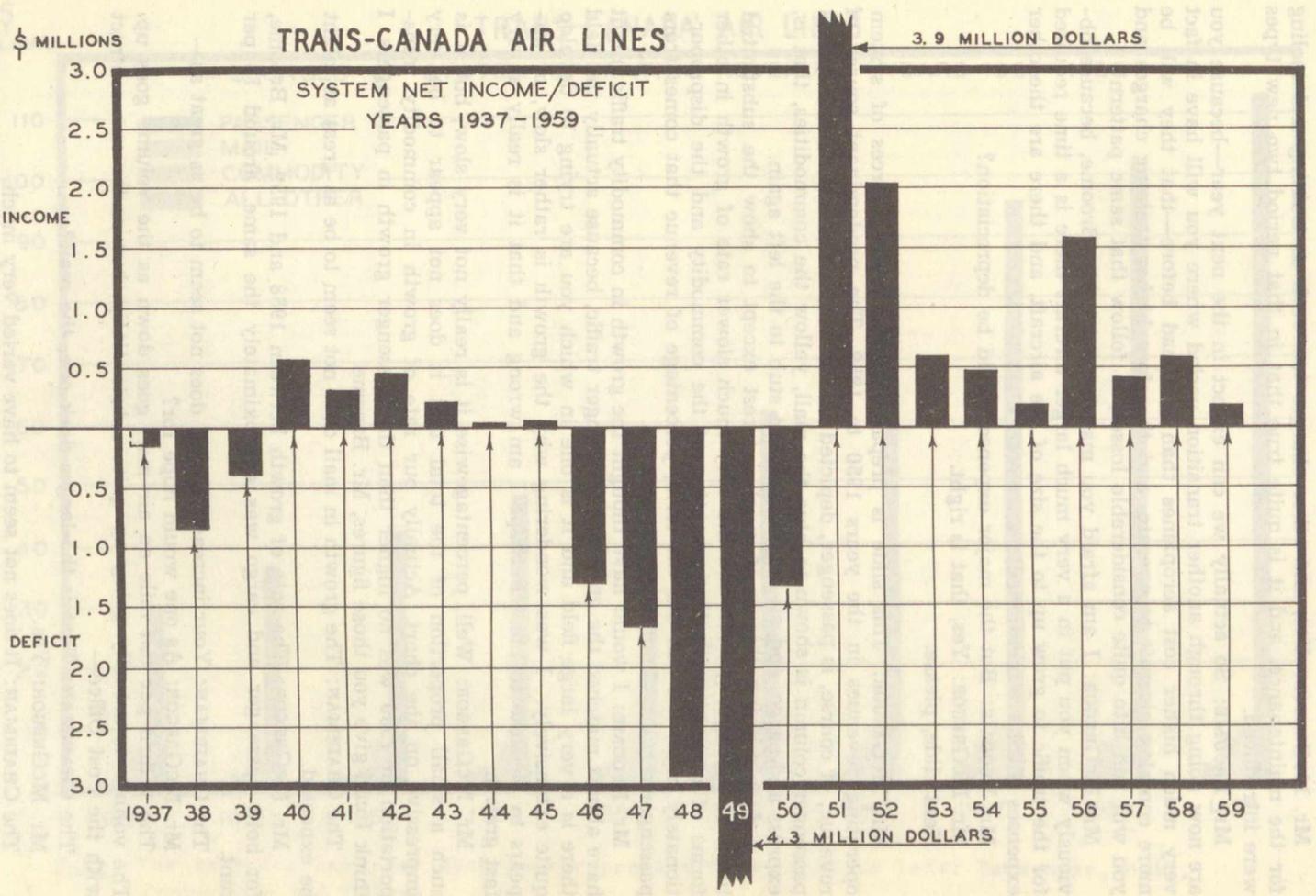
Mr. MCGREGOR: Yes, on the aggregate the total is to our discredit by \$1,484,000. That is, the aggregate losses exceed the aggregate surplus.

Mr. DRYSDALE: Mr. McGregor, would it be fair to say your objective in T.C.A. is basically to break even instead of perhaps trying to get a profit as a private company would be, and that you would pass the profit on in the form of reduced fares?

Mr. MCGREGOR: That is correct, we do not feel our function is to make a lot of money. We think this can be translated into lower fares and rates.

I will come back to Mr. Broome's question. That aggregate loss on the service includes over the corporate life \$16 million in interest paid by the Company on borrowed capital.

Mr. BROOME: Another question: in those five bad years would that not have been a transition period in regard to new types of aircraft and be repre-



sented by depreciating those aircraft? Whenever you go into new aircraft you have higher depreciation charges?

Mr. MCGREGOR: Yes, and other charges too, such as training and tooling for the maintenance, and it is quite true that in that period two new types were introduced.

Mr. BROOME: So actually we can expect in the next year—because you are now going through another transition period where you will have in fact very much higher cost aeroplanes than you had before—that they will be more complex aircraft to operate, and therefore higher training charges and you will run into quite considerable losses, to follow that same pattern?

Mr. MCGREGOR: I am afraid you may be right, Mr. Broome, because obviously when you put in a very much larger aircraft there is a time required for the traffic to grow up to the size of the aircraft, and there are the other expenses you have mentioned.

Mr. BROOME: But the major expense would be depreciation?

Mr. MCGREGOR: Yes, that is right.

Next slide, please.

Mr. MCGREGOR: This slide is prepared to show the sources of system operating revenues in the years 1950 to 1959. The predominant source of revenue, of course, is passenger, depicted in red and to the left in each year's passenger column is shown in blue the mail, yellow the commodities, that is, express and cargo, and all other is a little stub to the left again.

I do not think this is of much interest except to show the substantial trend in passenger growth and the very much slower rate of growth in other forms of revenue with the exception of the commodity and the disproportionately high, if I can use the term, percentage of revenue that comes from passenger service, about 85 per cent.

Mr. BROOME: I would have thought the growth in commodity traffic might have almost matched the growth in passenger traffic, because actually the field there is a very large field and it is one in which you are trying to develop quite extensively. I was wondering why the growth is rather slow, or appears to be slow to me. Perhaps I am wrong and that it is really a very fast growth.

Mr. MCGREGOR: Well, percentagewise it is really not very slow, but it is such a small proportion of the total that it does not appear to be very impressive on the chart. Actually our rate of growth in commodity transportation in 1959 was no higher than the passenger growth in passengers. I think I can give you those figures, Mr. Broome.

The CHAIRMAN: The growth in mail does not seem to be as great as might be expected.

Mr. MCGREGOR: The rate of growth between 1958 and 1959, Mr. Broome, for both passenger and cargo was approximately the same, around 13 per cent.

The CHAIRMAN: Your increase in mail does not seem to be as great as—

Mr. MCGREGOR: As one would hope for?

The return per ton mile on air mail goes down as the volume goes up. The volume is actually going up quite substantially, but under our contract with the Post Office—

The CHAIRMAN: That is the larger dark one, the mail?

Mr. MCGREGOR: Yes.

The CHAIRMAN: It does not seem to have varied very much.

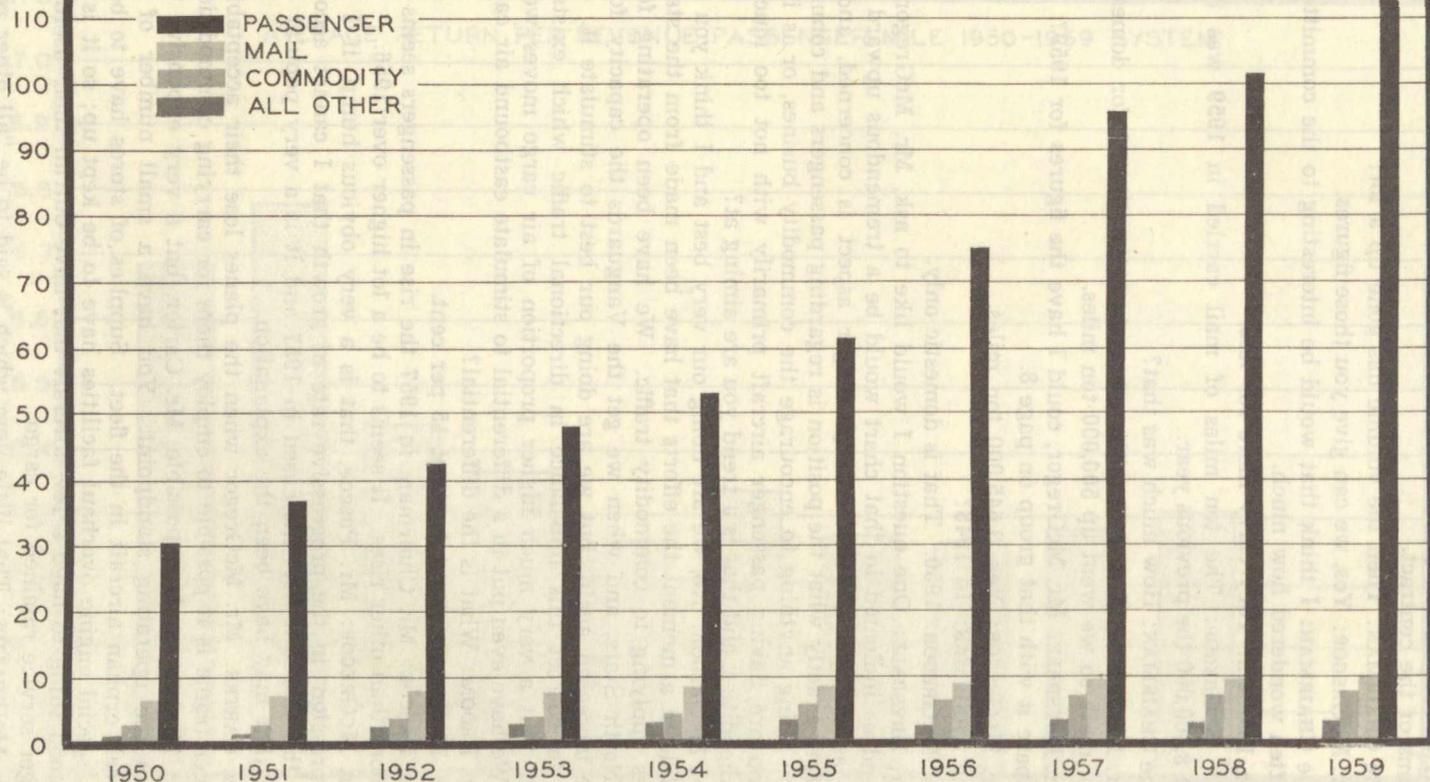
Mr. MCGREGOR: No, but this is money. This is not volume of traffic; this is revenue.

\$
MILLIONS

TRANS-CANADA AIR LINES

SOURCES OF SYSTEM OPERATING REVENUES - YEARS 1950-1959

■ PASSENGER
■ MAIL
■ COMMODITY
■ ALL OTHER



N.B. The vertical bars for each year represent from right to left: Passenger, Mail, Commodity, All Other.

The CHAIRMAN: Well, even so.

Mr. MCGREGOR: Our revenue goes down per unit of mail carried under the terms of the contract.

The CHAIRMAN: Then the volume has gone up a lot?

Mr. MCGREGOR: Yes, we can give you those figures.

The CHAIRMAN: I think that would be interesting to the committee and I have often wondered how much.

Mr. BROOME: They carry more for less.

Mr. MCGREGOR: The ton miles of mail carried in 1959 was 8,900,000 against 8,400,000 the previous year.

The CHAIRMAN: How much was that?

Mr. MCGREGOR: It was 8 million 9 against 8 million 4 for domestic carriage of mail, so we went up 500,000 ton miles.

Mr. DRYSDALE: Mr. McGregor, could I have the figures for 1959? I want to compare it with that group on page 8.

Mr. MCGREGOR: Yes, 3,645,000 ton miles.

The CHAIRMAN: In 1948?

Mr. MCGREGOR: 1950. That is domestic only.

Mr. DRYSDALE: One question I would like to ask, Mr. McGregor. I see the trend as indicated in that chart would be a tremendous upward growth, as far as the transportation of passenger aspect is concerned, and I was wondering exactly what the position is regarding passengers and commodities. Are you doing anything to encourage the commodity business, or is it a fact that you are having passenger aircraft primarily with not too much space for commodities, and that is a trend you are aiming at?

Mr. MCGREGOR: No, we are doing our very best and I think you will see on a slide in a moment the efforts that have been made from the standpoint of rates applying to commodity traffic. We have been operating four all-cargo North Stars, and when we get the Vanguards the capacity for cargo will be increased again; but we are doing our best to stimulate it. We are trying to correct this imbalance in directional traffic which exists across Canada, that a very much higher proportion of air cargo moves west than east. We have even put in a differential to stimulate eastbound air cargo.

Mr. BROOM: What is the differential?

Mr. MCGREGOR: I think about 15 per cent.

Mr. PASCOE: Mr. Chairman, in 1957 the rise in passengers seems to be a little more than other rises. It seems to be a lot higher over 1956.

Mr. MCGREGOR: Mr. Pascoe, that is a very obvious hump, if I can use the expression, in the progressive rate of growth that I cannot account for, except the Viscount fleet increased in 1957 and it is a very popular aircraft. I think that may have been the explanation.

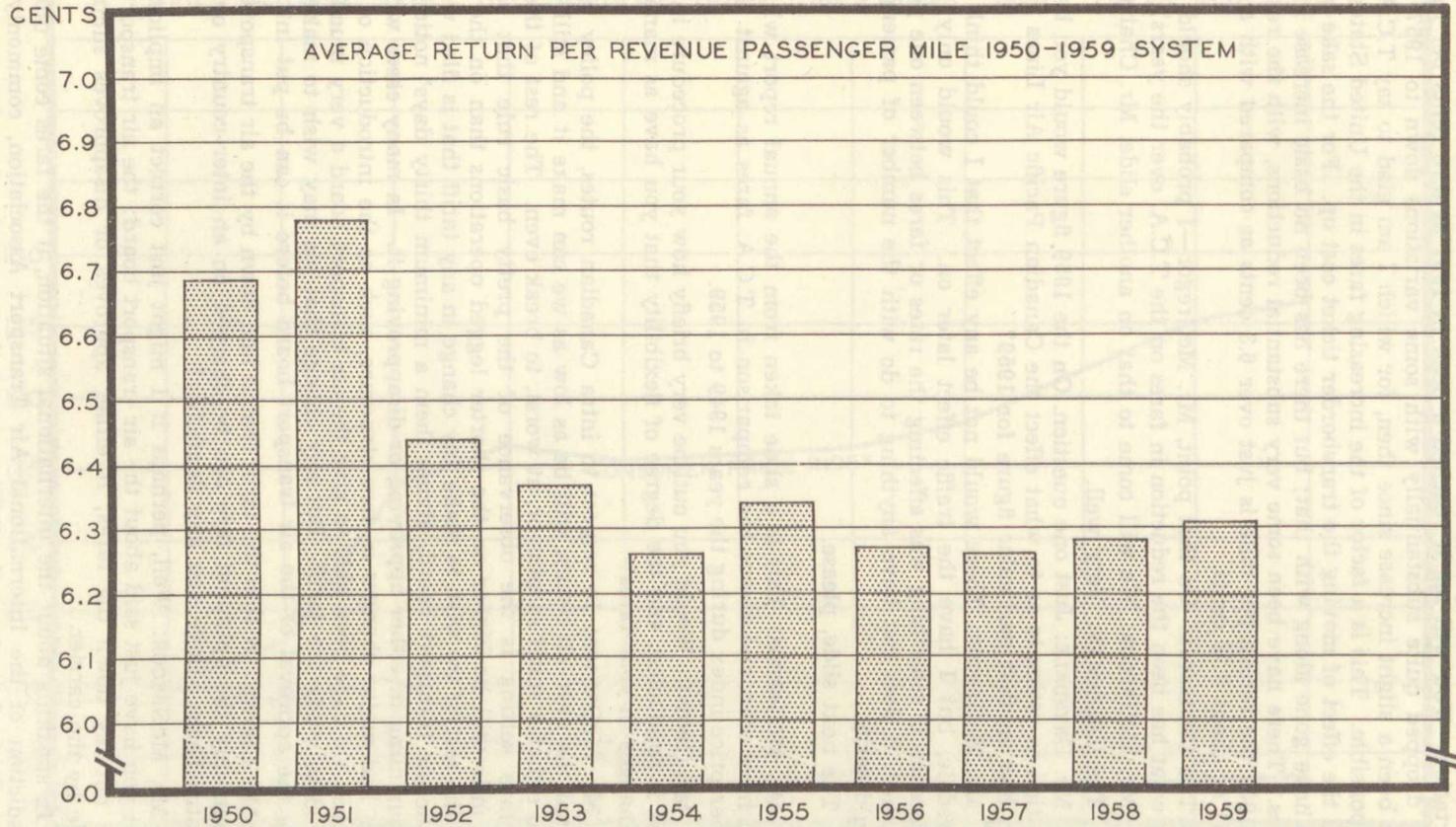
Mr. CARTER: Mr. McGregor when the planes lose their acceptability for passenger traffic is it possible to employ them for carrying commodities?

Mr. MCGREGOR: It is possible, Mr. Carter, but a very expensive thing to do from the operating standpoint. You have a small number of what I might call orphan aircraft in the fleet. Supplies of stores have to be maintained, special engine overhaul facilities have to be kept up; so it is usually not a good thing to have a few aircraft that have outrun their usefulness on passenger service retained for cargo.

Mr. McPHILLIPS: That little item which is said to be "all other revenue", would that be derived from charter flights and that kind of thing?

Mr. MCGREGOR: Excess baggage, charter passenger and incidental revenue. The next slide, please.

TRANS-CANADA AIR LINES



Mr. MCGREGOR: This slide shows the average return per revenue passenger mile, and in a sense represents the average cost to the passenger, of air transportation. You will see it reached a peak in 1951 at 6.78 cents per mile, and has dropped quite substantially with some variations down to 1957. There has been a slight increase since then, for which I am glad to say T.C.A. is not responsible. This is a factor of the increasing fares in the United States, which had the effect of moving the transborder ticket cost up. For the sake of peace, we have gone along with that; but there has been no basic increase in T.C.A. fares. There have been some very substantial reductions, with the result that in 1959 the return per mile is just over 6.3 cents as compared with a high in 1951 of about 6.78 cents.

The CHAIRMAN: On that point, Mr. McGregor—I probably should know—but what has been the reduction in fares on the T.C.A. over the years?

Mr. MCGREGOR: We will come to that on another slide, Mr. Chairman.

The CHAIRMAN: Very well.

Mr. DRYSDALE: Just one question. On the 1959 figure would you be in any position to estimate as to what effect the Canadian Pacific Air Lines competition had on that particular figure for 1959?

Mr. MCGREGOR: There would not be any effect that I could think of, Mr. Drysdale, but I have the traffic effect later on. This would only show a difference if something was affecting the rates or fares between one year and another; it does not have anything to do with the number of passengers we would carry.

The next slide, please.

Mr. MCGREGOR: This is a slide taken from the annual report which you will have seen and shows the comparison in T.C.A. fares as against the consumer price index during the years 1949 to 1959.

Mr. CHOWN: Would you outline very briefly how your procedure in setting fares is conducted, and the degree of flexibility that you have as management in changes in your fares?

Mr. MCGREGOR: In respect to intra Canadian routes, the policy basically is that the over-all return will be as low as we can make it and still operate with either a small surplus or, at worst, to break even. The rest of the policy on fare setting is the observance of the pretty basic rule that the cost per mile will be higher on the shorter legged operations than on the longer. For the rest, if we wish to make any change in any tariff that is filed we apply to the air transport board, giving them a minimum thirty days' notice to act on our filing in either approving or disapproving it. In many cases where we have had major changes in fare structure, such as the introduction of tourist service, we have been able to give the air transport board a very much longer period to study the tariff. But any change that we may wish to make has to have the approval of the air transport board before it can be put into effect.

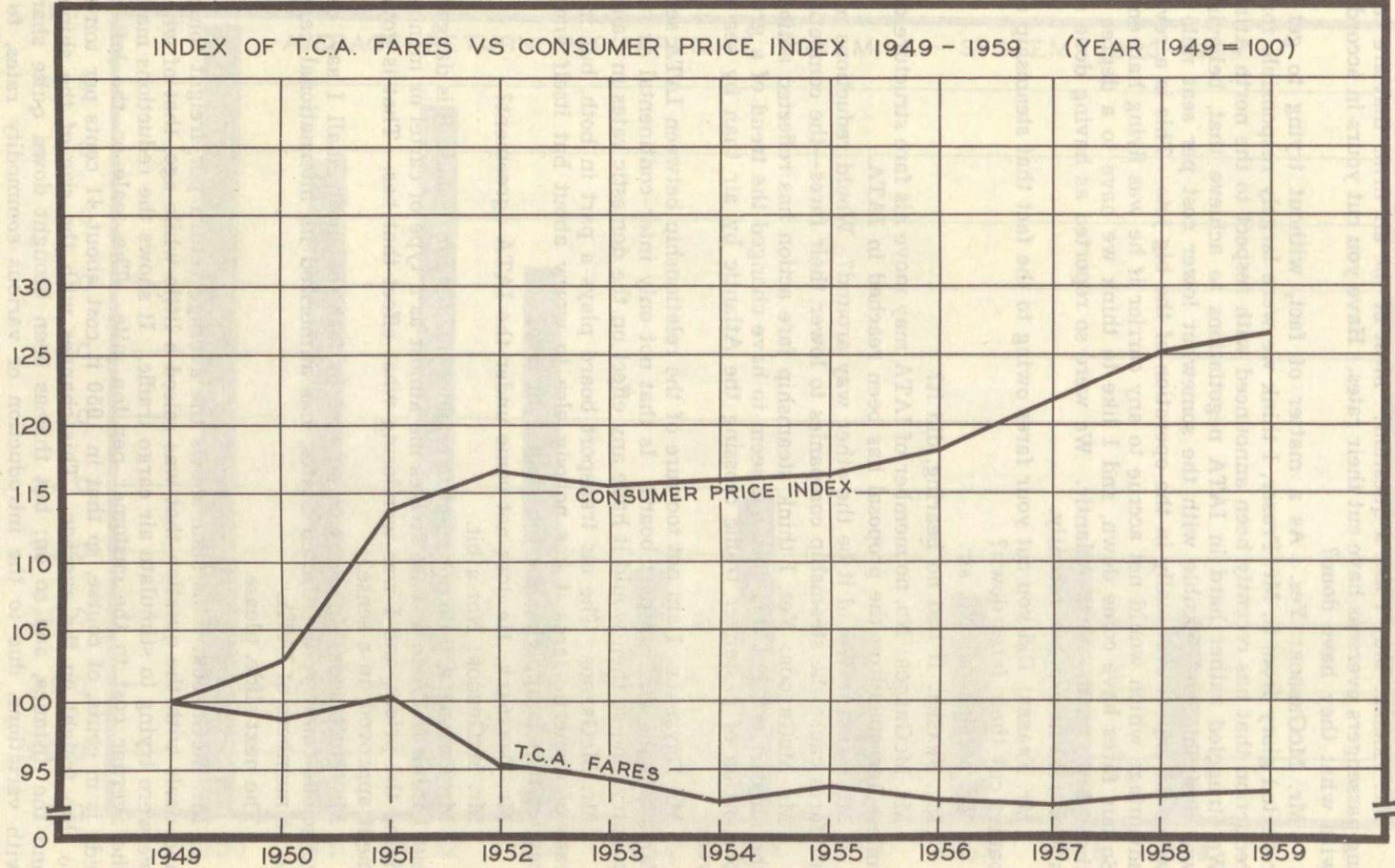
Mr. CHOWN: Within the tariff that is laid down by the air transport board, presumably the optimum fare can be charged on an inter-country or extra-country basis. Have you any flexibility?

Mr. MCGREGOR: Well, perhaps if I might just correct an implication in what you have just said about the air transport board: the air transport board does not lay down the fares; it either approves or disapproves submissions made by the carrier.

In speaking about the international situation, if the fares come under the jurisdiction of the International Air Transport Association, commonly called IATA, then there is no flexibility except that a carrier can charge more, but

TRANS-CANADA AIR LINES

INDEX OF T.C.A. FARES VS CONSUMER PRICE INDEX 1949 - 1959 (YEAR 1949 = 100)



he may not charge less than the agreed IATA fares which, in turn, are approved by the governments of each of the countries of the carriers involved in IATA.

Mr. FRASER: May I ask a question? Most of the air firms that are carrying passengers overseas have cut their rates. Have you cut yours in accordance with what they have done?

Mr. MCGREGOR: Yes. As a matter of fact, without trying to get any reflected glory from it, Mr. Fraser, I think we were largely responsible for the reduction that has recently been announced with respect to the north Atlantic. We struggled rather hard in IATA negotiations to achieve that, believing it was desirable and feasible with the somewhat lower cost per seat mile that we could expect eventually in the operation of the big jets. This is a revenue advantage which would not accrue to any carrier if he was flying half empty. So our fares have come down, and I like to think we have to a degree held them down on the north Atlantic. We were so reported as having done so in a Montreal newspaper recently.

Mr. FRASER: Did you cut your fares owing to the fact that steamship companies cut their fares down?

Mr. MCGREGOR: No, sir.

Mr. FRASER: It had no bearing, did it?

Mr. MCGREGOR: No, no member of IATA may move his fare structure down unless agreement on the proposal has been reached in IATA.

Mr. CARTER: Would it be the other way around? Would reductions in the air fares cause the steamship companies to lower their fares—the competition?

Mr. MCGREGOR: Yes, I think steamship fare action has reflected action by the air carriers, but this does not seem to have changed the trend of a greater proportion of passenger traffic crossing the Atlantic by air than by sea each year.

Mr. DRYSDALE: I am not too sure of the relationship between IATA setting fares and the air transport board. Is that not only inter-continental or inter-country, and so then would it have any effect on the domestic rates in Canada?

Mr. MCGREGOR: The air transport board plays a part in both, but in the case of domestic fares it has nobody else to worry about but itself and the carrier that is applying for the change in fares.

Mr. DRYSDALE: He does not come under the IATA agreement?

Mr. MCGREGOR: Not a bit.

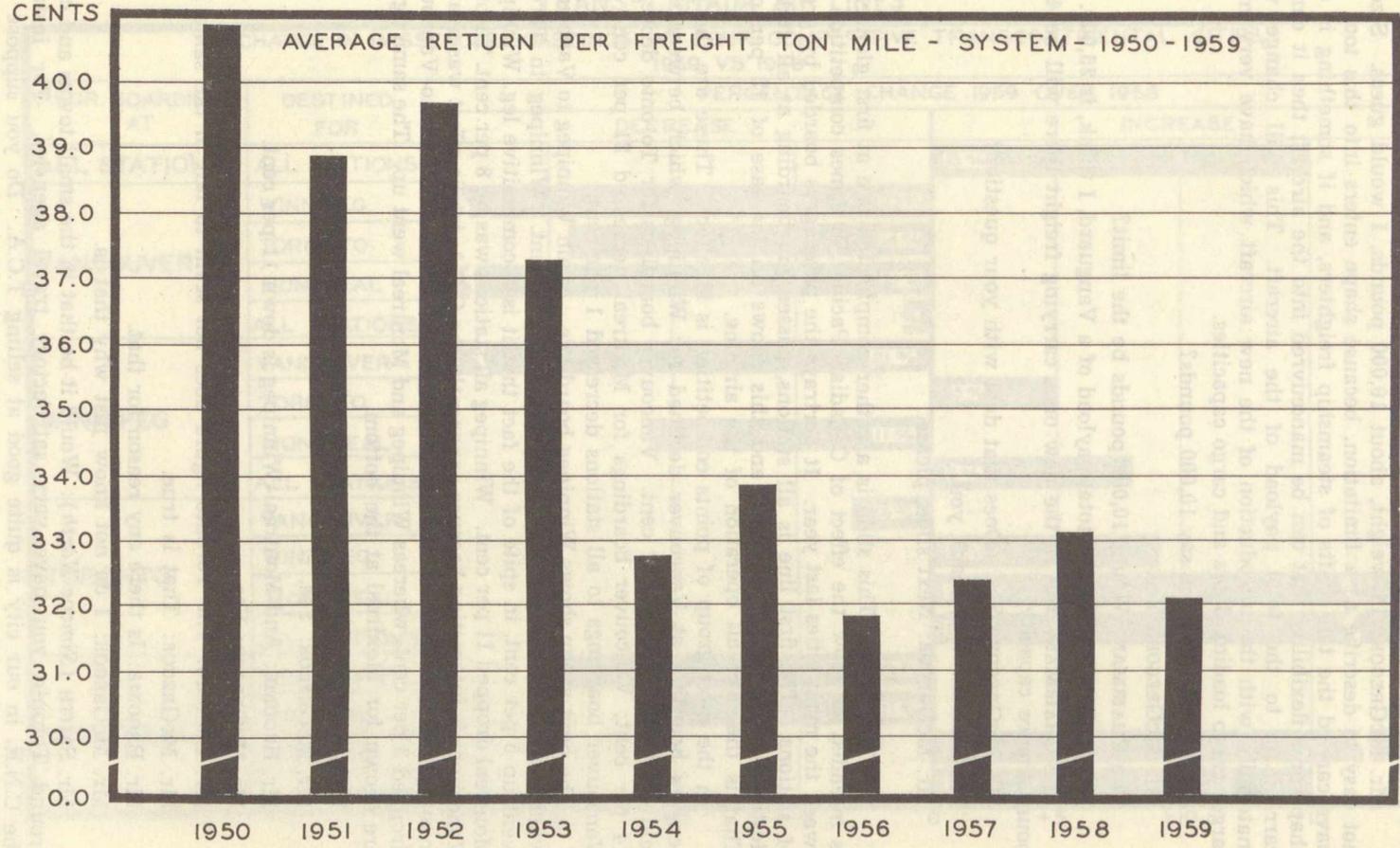
Mr. DRYSDALE: I do not want to explore this too far because it is dangerous, but I think IATA in a sense strikes me almost as a type of cartel or monopoly, fixing the prices, and I was wondering what effect that has. That is government approved, in a sense?

Mr. MCGREGOR: In every case; and in fact the most, shall I say, cartel conscious country, the United States, has authorized its international carriers to be members of IATA.

The next slide, please.

Mr. MCGREGOR: This slide shows the average return per freight ton mile and deals with the question that was raised a little while ago, that of whether we were trying to stimulate air cargo traffic. It shows the reductions made in the average cost to the customer per ton mile. The scale on the left-hand side is in cents, of course, so that in 1950 it cost about 41 cents per ton mile to ship freight on the average. This changes with the size of the shipment and the distance, and so on; but this as been brought down quite sharply, with variations, due to the introduction of various commodity rates, to the 1959 figure of 32 cents, or something like a 9-cent per ton mile reduction.

TRANS-CANADA AIR LINES



Mr. FRASER: Mr. Chairman, could Mr. McGregor say what is the largest piece of equipment that they can carry in weight or size?

Mr. MCGREGOR: In weight, about 10,000 pounds, I would guess. Size, is not easy to describe as a limitation, because shape enters into this too. We have carried the tail shafts of steamship freighters, and if something is of a shape or a flexibility that can be manœuvred into the aircraft then it can be carried up to the total payload of the aircraft. This will change very materially with the introduction of the new aircraft which have very much larger cargo loading doors and cargo capacities.

Mr. FRASER: Did you say 10,000 pounds?

Mr. MCGREGOR: Yes.

The CHAIRMAN: Would 10,000 pounds be the limit?

Mr. MCGREGOR: No, the total payload of a Vanguard, I think, is 25,000.

The CHAIRMAN: But in the new ones carrying freight there will be 4,000 pounds more capacity?

Mr. MCGREGOR: Yes. Does that deal with your question?

Mr. FRASER: Yes, thank you.

Mr. MCGREGOR: Next slide, please.

Mr. MCGREGOR: This slide is a rather complicated one at first glance. It is intended to show the effect of Canadian Pacific Air Lines competition between the main cities last year. It portrays the passengers boarded by groups of stations. The first line is all stations, passengers boarding at all stations destined for all other stations, and this shows an increase of 15 per cent. That is the over-all operation of the air line.

In the next group of points competition is in effect. These are the passengers boarding at Vancouver destined for Winnipeg, which between 1958 and 1959 decreased 23 per cent. Vancouver boardings for Toronto decreased 14 per cent; Vancouver boardings for Montreal decreased 21 per cent, and Vancouver boardings to all stations decreased 1 per cent.

The next group shows Winnipeg boardings. Again Winnipeg to Vancouver, where the Britannia operates, was down 21 per cent. Winnipeg to Toronto went up 5 per cent, in spite of the fact that it is a competitive leg. Winnipeg-Montreal dropped 11 per cent. Winnipeg all stations was up 8 per cent. Toronto-Vancouver is interesting because apparently the C.P.A. traffic effect was sharper in an east-bound direction than in a west-bound direction. Toronto-Vancouver dropped 3 per cent, whereas Winnipeg and Montreal went up. The same figures are shown for Montreal at the bottom.

Mr. BROOME: Montreal-Vancouver is down 15 per cent.

Mr. MCGREGOR: Yes.

Mr. BROOME: And Montreal-Winnipeg is down 11 per cent.

Mr. MCGREGOR: Yes.

Mr. BROOME: The Toronto figure does not seem to fall in the same line.

Mr. MCGREGOR: That is true.

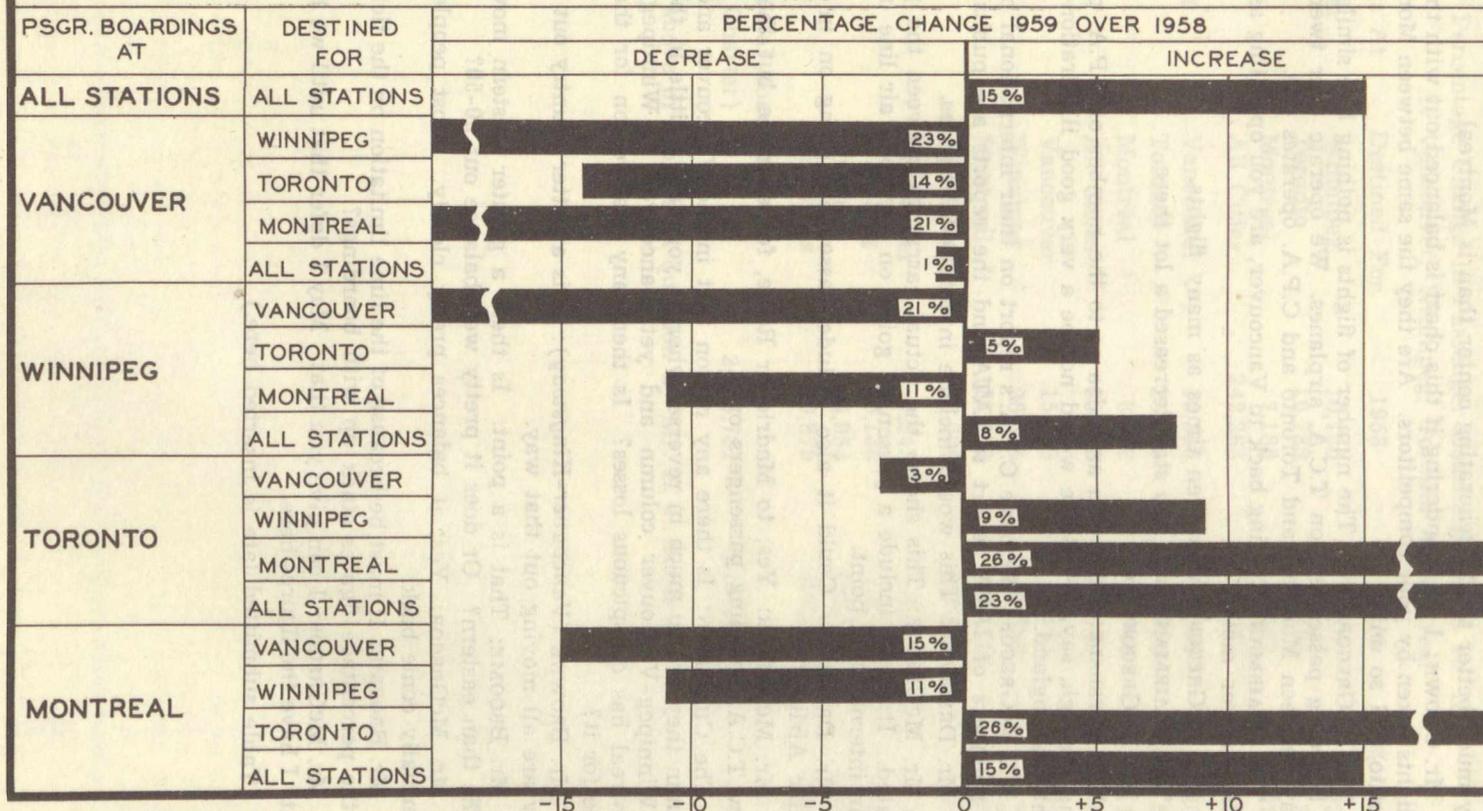
Mr. BROOME: Is there any reason for that.

Mr. MCGREGOR: I do not know just why that is.

Mr. SMITH (*Simcoe North*): Would it be that in the small towns and cities around Toronto you have very satisfactory travel agencies. For instance the C.N.R. in our city is quite good at selling T.C.A. Do you suppose that would be a factor?

TRANS-CANADA AIR LINES

% CHANGE IN PASSENGER BOARDINGS AT FOUR COMPETITIVE TRANSCONTINENTAL CITIES
1959 VS 1958



Mr. MCGREGOR: It could be. I like to think we have pretty good agency representation throughout the area. The fact, is, of course, that Toronto is a very much better traffic generating center than is Montreal.

Mr. CHOWN: I am wondering if this chart is balanced out with the number of flights taken by your competitors. Are they the same between Montreal and Toronto and so on?

Mr. MCGREGOR: No. The number of flights is nothing like similar. These are boarding passengers on T.C.A. airplanes. We operate over twenty flights a day between Montreal and Toronto and C.P.A. operates one.

The CHAIRMAN: Coming back to Vancouver, are you operating as many as C.P.A. are, or more?

Mr. MCGREGOR: About ten times as many flights.

The CHAIRMAN: And you still decreased a lot there.

Mr. MCGREGOR: Yes.

Mr. DRYSDALE: Have you any idea as to the number of C.P.A. passengers going through, say, to—Rome would not be a very good illustration—perhaps flights to England.

Mr. MCGREGOR: We have C.P.A.'s report on their international operations. All members of IATA report to IATA and the reports are published.

Mr. DRYSDALE: This would include international figures.

Mr. MCGREGOR: This shows the actual carryings between the points indicated. It might include a passenger going on over one air line or another to an international point.

Mr. DRYSDALE: Could it also include passengers going on in Canadian Pacific Airlines?

Mr. MCGREGOR: Yes; to Madrid or Rome, for example but these figures show T.C.A. boarding passengers only.

The CHAIRMAN: Is there any reason that in the Vancouver and Toronto column they are so much in reverse, whereas you gain a little in the Toronto to Winnipeg-Vancouver column and yet Vancouver to Winnipeg-Toronto-Montreal has conspicuous losses? Is there any real reason for that or any hope for it?

Mr. BROWNE (*Vancouver-Kingsway*): It is a better country out west, and they are all moving out that way.

Mr. BROOME: That is a point. Is there a greater western movement of traffic than eastern? Or does it pretty well balance out 50-50?

Mr. MCGREGOR: Yes; it balances pretty closely. Most people who go eventually come back.

Mr. BROOME: It must be because of the time limitation on the ticket. How do the percentage figures stack up with boardings?

Mr. MCGREGOR: I can give you that. May I defer that until we have more light? I have the figures here.

(Table submitted late is inserted here.)

TRANS-CANADA AIR LINES

Percentage Change in Passenger Boardings—1959 vs. 1958
At Vancouver, Winnipeg, Toronto & Montreal

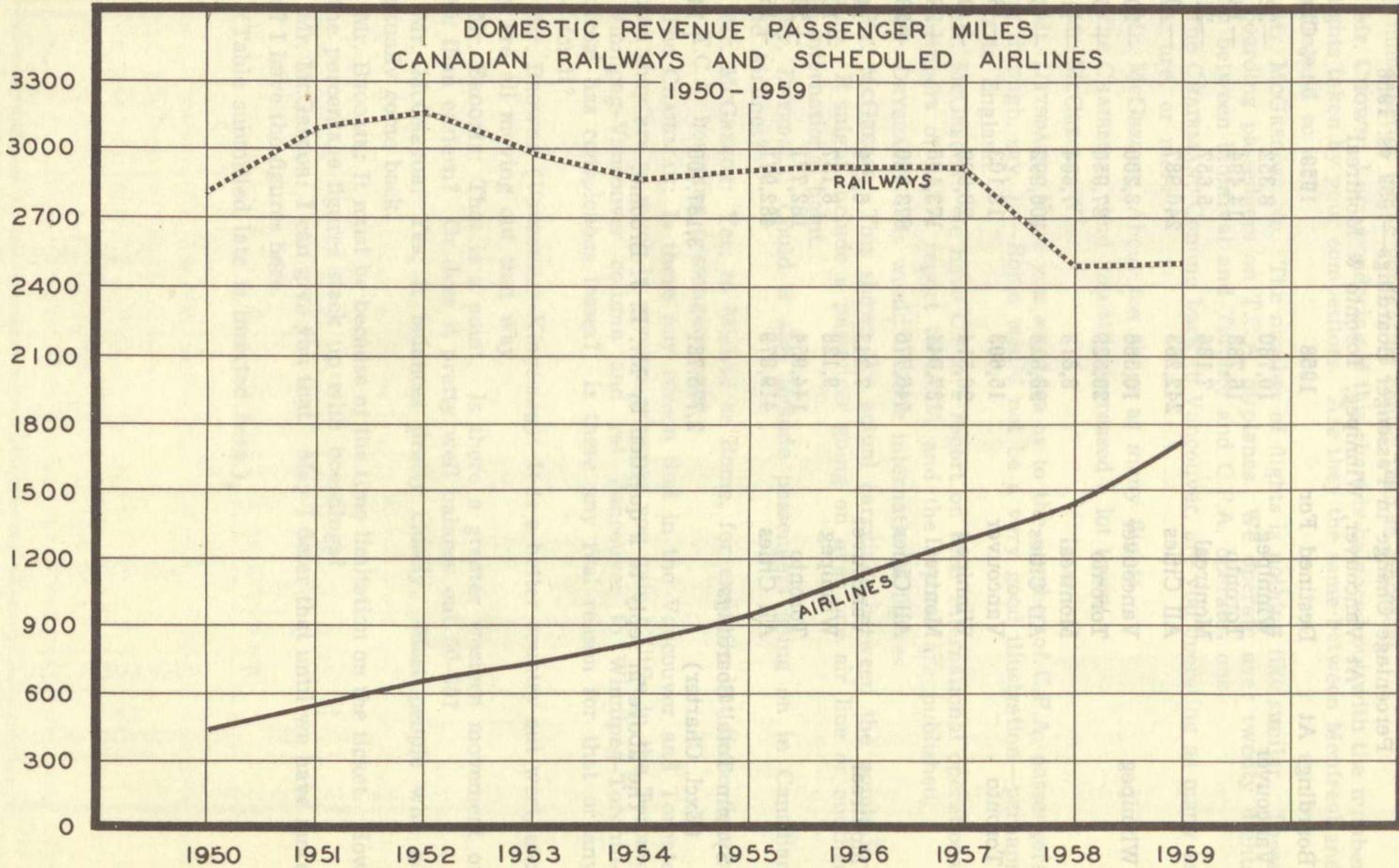
| Boardings At | Destined For | 1958 | 1959 | % Change |
|---|--------------|-----------|-----------|----------|
| Vancouver | Winnipeg | 10,780 | 8,352 | -22.5 |
| | Toronto | 16,788 | 14,494 | -13.7 |
| | Montreal | 7,186 | 5,657 | -21.3 |
| | All Cities | 242,263 | 240,987 | - 0.5 |
| Winnipeg | Vancouver | 10,366 | 8,200 | -20.9 |
| | Toronto | 26,529 | 27,956 | + 5.4 |
| | Montreal | 8,813 | 7,804 | -11.4 |
| | All Cities | 98,828 | 106,992 | + 8.3 |
| Toronto | Vancouver | 15,603 | 15,103 | - 3.2 |
| | Winnipeg | 26,514 | 28,999 | + 9.4 |
| | Montreal | 137,944 | 173,196 | +25.6 |
| | All Cities | 546,776 | 673,570 | +23.2 |
| Montreal | Vancouver | 7,343 | 6,279 | -14.5 |
| | Winnipeg | 9,128 | 8,137 | -10.9 |
| | Toronto | 144,954 | 182,771 | +26.1 |
| | All Cities | 419,879 | 482,971 | +15.0 |
| System Total Boardings (Excl. Charter) | | 2,775,781 | 3,187,400 | +14.8 |

The above in reply to a question by Mr. E. J. Broome.

TRANS-CANADA AIR LINES

MILLIONS

DOMESTIC REVENUE PASSENGER MILES
CANADIAN RAILWAYS AND SCHEDULED AIRLINES
1950-1959



Mr. MCGREGOR: This chart shows the domestic revenue passenger miles flown by air lines, not specifically T.C.A., as compared to railway traffic. This is over the period 1950 to 1959. You will see that in the period 1950-52 there was a substantial growth in rail traffic and in air lines traffic. But thereafter rail traffic began to decrease, through 1954 and remained almost level during 1954-57. There was a sharp drop in 1958, but it has held its own in 1959. On the other hand the percentage of the total travel market excluding the vehicular traffic has steadily increased in favour of the air lines with a further sharp increase shown in 1959.

Mr. MCGREGOR: This is the chart on international transportation showing the percentage of the total market enjoyed by each of the carriers operating east bound on the Atlantic route for the year 1958-59. The left hand column is T.C.A. It shows that in 1958—the blue line—we had 42 per cent of the total market. It decreased pretty sharply to just over 36 per cent in 1959 due to increases in other carriers' proportion of the market, some of it due to equipment, and also the introduction of new carriers. B.O.A.C., as you will see, had 27.2 per cent of the market in 1958 and that rose to 28.7 per cent in 1959.

Canadian Pacific Airlines also suffered a downward drop in the percentage of the total traffic carried. It went from about 14 per cent in 1958 to 12 per cent in 1959.

K.L.M., the Dutch airlines, had an increase as also had Air France, and the German carrier Deutsche Lufthansa held its own. Sabena, went up a little. S.A.S. operated in 1959 but not in 1958. In 1959 it had its proportion of the travel.

Mr. BADANAI: Have you had negotiations with B.O.A.C. in respect of a pooling arrangement.

Mr. MCGREGOR: Yes. The pooling arrangement became effective on March 1st this year.

Mr. BADANAI: What are the terms?

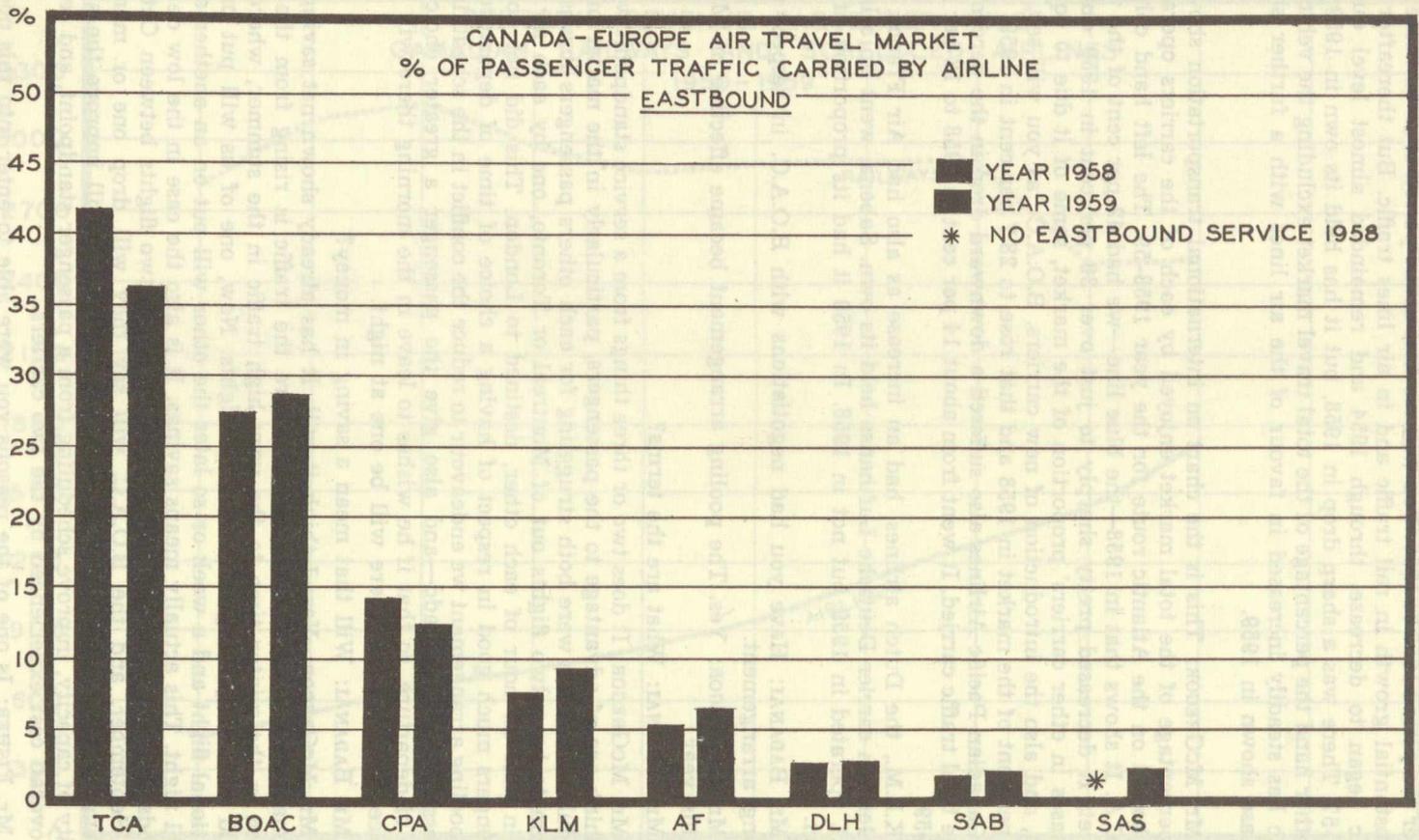
Mr. MCGREGOR: It does two or three things from a service standpoint which we think are of advantage to the passengers, particularly in the matter of the schedule. When we were both struggling for each others passengers it was the custom to have two flights out of Montreal or Toronto, one by each air line within half an hour of each other, destined to London. This did not do the passengers much good in respect of having a choice of time of departure. In this pooling arrangement we endeavour to reduce the conflict in the scheduling—successfully I might add—and also give the passenger a greater choice of time of departure, so that if he wishes to leave in the morning there will be a service, and similarly there will be one at night.

Mr. BADANAI: Will that mean a saving in money?

Mr. MCGREGOR: Yes; I think it will. It has already shown net savings in the matter of those growth periods where the traffic is rising from the low period in the winter time to the very high traffic in the summer, where we would be both putting on additional flights. Now, one of us will put on an additional flight and a week or so later the other will put on an another additional flight. This actually means savings. It is also the case in the low density periods. By agreement we will say we will drop two flights between October and September, and the B.O.A.C. will say they will drop one or more in November, and so on. I think it will do two things: it will improve the availability of capacity, improve scheduling from a passenger standpoint, and reduce the overall cost experienced by the two carriers.

Mr. FISHER: Is one of the reasons you were able to enter into this pooling arrangement with B.O.A.C. because you were relatively close in traffic volume?

TRANS-CANADA AIR LINES



N.B. The vertical bars for each airline represent from left to right: 1958, 1959.

Mr. MCGREGOR: I think that helped, but I do not think it is an essential part of it. This is our first experience with pooling. B.O.A.C. have been pooled with other carriers for years. They are enthusiastic about it and they were the people who made the overtures in regard to the pooling.

Mr. FISHER: Has it been suggested that this is likely to rob you of a certain amount of the carrier trade to the United States from overseas?

Mr. MCGREGOR: I do not see why that should happen. The fact is there was a good deal of Canadian traffic going overseas which Canada was losing as a result of its being diverted from Toronto down to New York, where there was a jet operation in 1959. This diversion to New York of Canadian traffic seems to be greatly reduced now. I am speaking, mind you, with only four weeks experience of the pooling arrangement.

Mr. BADANAI: Does this mean a reduction in personnel.

Mr. MCGREGOR: No. I cannot speak for B.O.A.C., but it does not mean any reduction in personnel, because we are both operating at very nearly the capacities we had been operating at.

Mr. BROWNE (*Vancouver-Kingsway*): Might this arrangement encourage some of the other air lines to put on flights where T.C.A. or B.O.A.C. have dropped them in the hope of picking up some of the business.

Mr. MCGREGOR: No, it should not, if we do not drop flights which should not be dropped. Between the two of us we must keep our capacity up to maintain this percentage of the market.

Mr. DRYSDALE: As a matter of policy, what is the relationship of T.C.A. in respect of these bilateral agreements? When the government enters into a bilateral agreement, and you might be desirous of obtaining a specific route, does T.C.A. in the first instance actively participate in this? On the other side of the picture, when there is another air line like K.L.M. or D.L.H. coming into the country does T.C.A. take any active part in opposing that air line coming in? Would you give us a brief picture of your relationship in this respect.

Mr. MCGREGOR: We are not invited to participate in the actual negotiation between representatives of the two governments concerned—Canada and whichever foreign country is involved. We are invited to comment on the applications by some governments for bilateral rights, and we usually do so—not often objecting, because we are always hopeful that the reciprocity of the agreement will be of advantage to T.C.A.

In the case of the negotiations with Italy, for instance, we did speak quite strongly because we thought that the negotiations were not *quid pro quo* in the full sense of the term. Where we desire to fly on a new international route we make strong recommendations to the air transport board either that bilateral negotiations be entered into in the case of a country where they do not exist, or that an amendment to the existing bilateral agreement be attempted. This has gone on for years, particularly in respect of the United States bilateral.

Mr. DRYSDALE: You do not specifically press that; you just indicate, for example, that you want to do to a particular spot and get the fifth freedom. Would that be the extent of it?

Mr. MCGREGOR: Yes; but we would support it by an estimate of the traffic to be handled and the overall financial effect on the air line.

Mr. DRYSDALE: Is it the case at present that you are not competitive with C.P.A. on international routes?

Mr. MCGREGOR: Generally speaking, this is true. There is no case where we are operating over the same route. However, on a route such as, for instance, Vancouver to Amsterdam operated by C.P.A. with traffic rights at Edmonton, it does have some effect. There is a substantial amount of traffic

from Vancouver and Edmonton which goes to the United Kingdom via Amsterdam. But there is no case where we are taking off from the same Canadian point and landing at the same foreign point.

Mr. DRYSDALE: For example, there is the recent C.P.A. acquisition of the Rome route, and you are at present landing in Paris.

Mr. MCGREGOR: Yes.

Mr. DRYSDALE: Would you, for example, apply for the Paris-Rome route?

Mr. MCGREGOR: No. The bilateral agreement with Italy specifies one carrier from each country shall be designated, and it also limits the flight frequency by each of those carriers to two flights per week. The only possibility we would have of getting to Rome would be if the C.P.A. agreed to cease operating one of its flights. I do not think that is likely.

Mr. FISHER: Is this pooling arrangement along with the other much larger pooling arrangements in Europe a trend away from competition?

Mr. MCGREGOR: Yes, I think so. An example is in the very extensive pooling which exists between British-European Airways on the short-haul operations, and all of the other carriers. Last year B.E.A. was 95 per cent pooled, I am told.

Mr. FISHER: Is there not a certain paradox here with, on the one hand, an amelioration of competition in the international scene and on the other, a move towards competition in the national scene.

Mr. MCGREGOR: I think this is correct.

Mr. FISHER: What is the pattern in other countries in so far as their domestic traffic is concerned? For instance, in the United States can you mark out a trend in the reduction in the number of air lines and the reduction in the competition?

Mr. MCGREGOR: There have been amalgamations between air lines, but these are all corporate amalgamations. It is in no sense pooling. There has been a very strong expression of feeling that competition in the United States, particularly on the heavy traffic routes, has been carried on to the point of overall detriment to the financial position of the carriers. A certain carrier in the United States, for example, at the moment is in dire financial straits and has just applied for an emergency subsidy.

Mr. FISHER: I would like to confirm whether in your view there are very sharp limits to the amount of competition that air traffic can take, both internationally and nationally.

Mr. MCGREGOR: This is my view, particularly on the basis of the reduction in duplication of costs that can be achieved. I feel convinced that it is the cheapest way of doing it.

Mr. FISHER: Is the introduction of the large jet plane the main factor in this?

Mr. MCGREGOR: No. I think it is a factor, but I think it was apparent even before the big jets really came along.

Mr. FISHER: Well they will accelerate it?

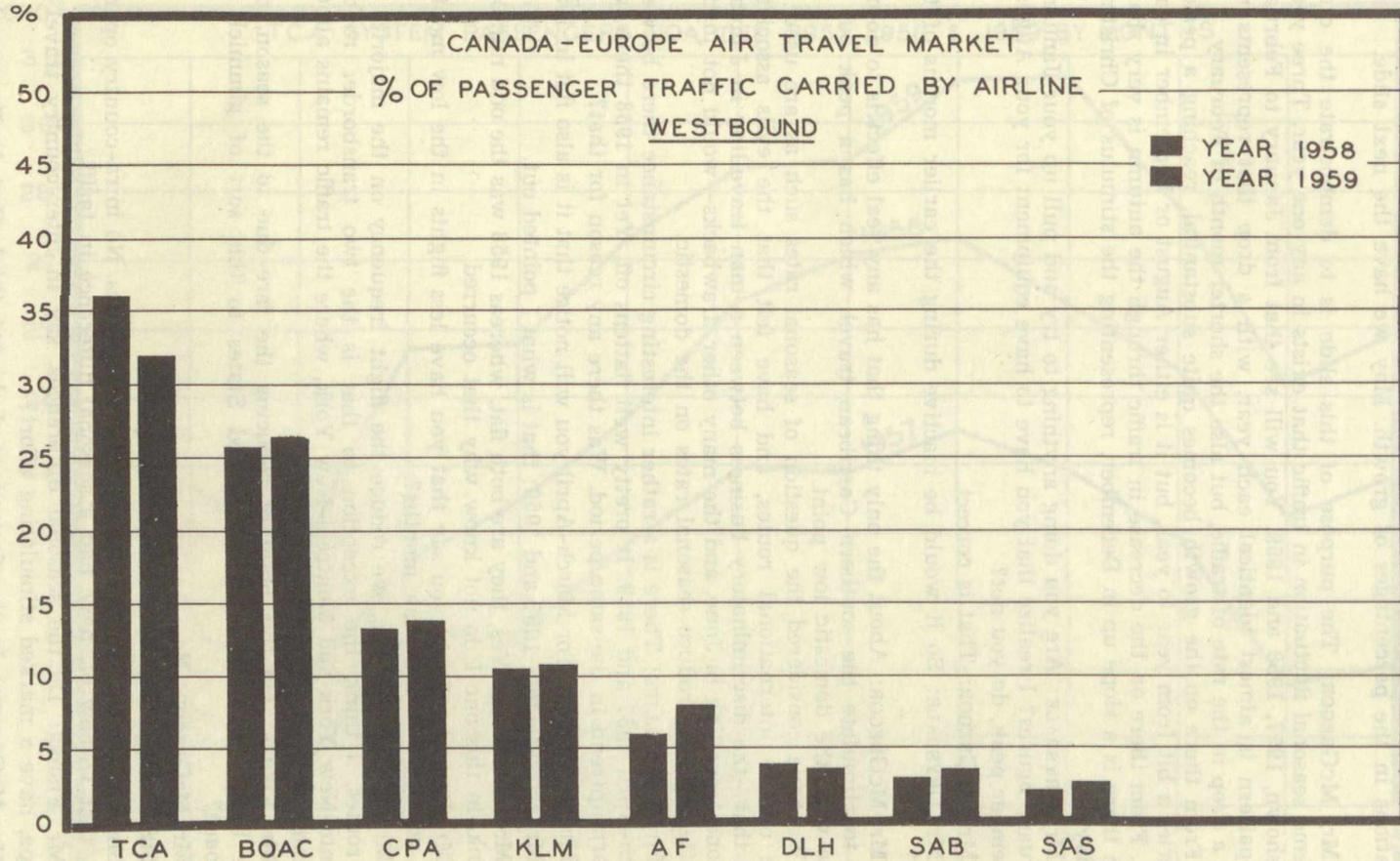
Mr. MCGREGOR: I think that is a fair assumption.

Mr. DRYSDALE: Is there a trend towards fifth freedom rights in most of the bilateral negotiations around the world? I realize that I am generalizing. On the other hand, is there a trend to try and get away from them?

Mr. MCGREGOR: No, I think the trend is for fifth freedoms to increase, and I think this is particularly true in the more recent bilaterals negotiated by Canada.

Canada had virtually steered clear of fifth freedoms until perhaps five or six years ago, when they began to make their appearance. I would like to deal with the fifth freedom privilege, if I may, on the last slide in this group, on which I have a map showing third and fourth rights and fifth freedoms. Could we have the next slide.

TRANS-CANADA AIR LINES



N.B. The vertical bars for each airline represent from left to right: 1958, 1959.

Mr. MCGREGOR: This is the percentage of passenger traffic carried by air lines westbound, again showing the various companies. The last slide was eastbound. I do not think it is of particular interest, except there are a few variations in the percentages of growth. May we have the next slide.

Mr. MCGREGOR: The purpose of this slide is to demonstrate the quite extreme seasonal fluctuation in traffic that exists in any one year. Three years are shown, 1957, 1958 and 1959. You will see that from January to February the pattern is almost identical each year, with a drop that represents not only a drop in the rate of traffic, but also the shorter month of February.

From there on the growth becomes quite substantial, reaching a peak—it varies a bit from year to year, but it is either August or September in each year. From there on the decrease in traffic through the autumn is very sharp. Then there is a slope up in December, representing the stimulus of Christmas holidays.

Mr. DRYSDALE: Are you doing anything to try and pull up your January-February figures? I realize that you have to have equipment for your August-September peak, do you not?

Mr. MCGREGOR: That is correct.

Mr. DRYSDALE: So it would be inactive during the earlier months of the year?

Mr. MCGREGOR: About the only thing that has any real effect is to do our best to stimulate the southern Carribean travel, which has a peak out of phase with the domestic low point.

We have considered the question of seasonal rates such as are used on some of the international routes, and have felt that the evils associated with that—the discriminatory business between a man travelling in January and one travelling in June, and the many other drawbacks—would not justify an attempt to introduce seasonal rates on the domestic.

Mr. MCPHILLIPS: There is a rather interesting circumstance there between March-April 1957 and 1959. It pretty well flattens off. Yet in 1958 there was a sharp uptrend in the same period. Was there any reason for that?

Mr. MCGREGOR: For March-April you will notice that it is also flat in 1957.

Mr. MCPHILLIPS: 1957 and 1959; that is what I pointed out.

Mr. MCGREGOR: Yes, they are both flat, whereas 1958 was the odd number, I think, in this one I do not know why that occurred.

Mr. PASCOE: Would you say that you have less flights in the low months than you have in the peak months?

Mr. MCGREGOR: Yes, we reduce the flight frequency on the majority of our routes. I think the exception to that is the two transborder routes, Toronto-New York and Montréal-New York, where the traffic remains almost constant the year 'round.

Mr. FISHER: On this point of reducing the fare due to the season, has there been any pattern in the United States to this sort of gimmick or approach?

Mr. MCGREGOR: No.

Mr. FISHER: Has there been in Europe?

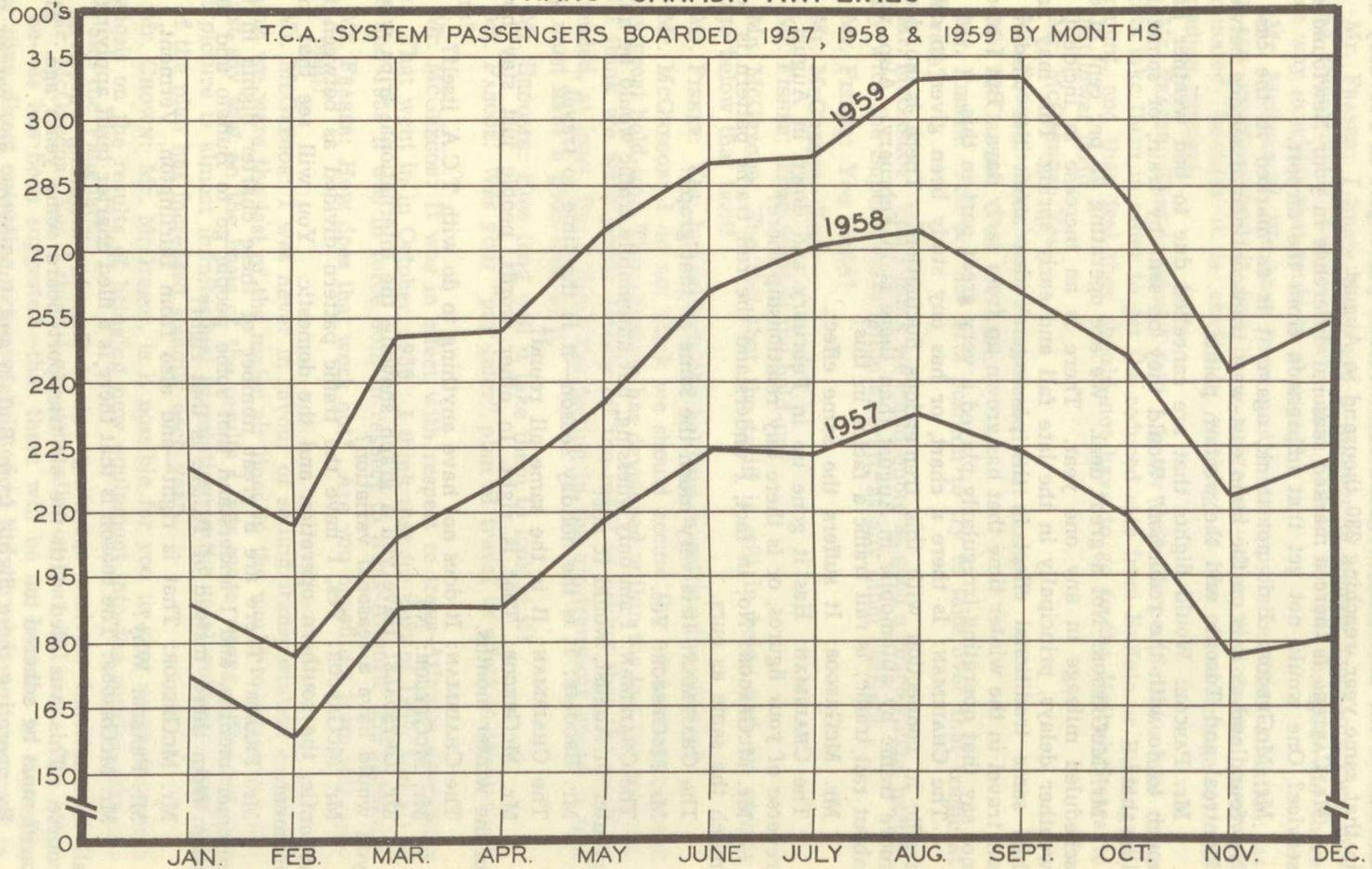
Mr. MCGREGOR: Only on the international routes. No intra-country operations, that I know of, have had a seasonal difference in tariff.

Mr. FISHER: Do the seasonal differences, say in inter-country travel in Europe, have a marked stimulating effort?

Mr. MCGREGOR: In the first place, I do not think that in Europe they have anything like the degree of seasonal fluctuation that we have in Canada

TRANS-CANADA AIR LINES

T.C.A. SYSTEM PASSENGERS BOARDED 1957, 1958 & 1959 BY MONTHS



—and it is also apparent to a lesser degree in the United States. We are quite extreme in the difference, between 155 thousand passengers in February and, in that same year, reaching 230 thousand in August.

Mr. CARTER: Is there a marked seasonal difference in your Newfoundland service? One would not get that impression from the airport.

Mr. MCGREGOR: I do not think, again, it is as marked in the case of Newfoundland as it is on the main east-west transcontinental service between Montreal and Toronto and the western points.

Mr. PASCOE: Would flights that are cancelled due to bad weather have much to do with the reduction? Would they be sent by train, or something like that?

Mr. MCGREGOR: Not a great deal. We are operating 98 per cent of our scheduled mileage in any one year. There is an increase in incidents of weather delays, principally in the late fall and early spring. This may have had some traditional effect in the passengers' idea about the wisdom of air travel in the winter time that has grown up from early days. But I would not say that operating irregularly played a very great part in this.

The CHAIRMAN: Is there a chart, or has any study been given to other traffic in connection with this tremendous fluctuation? There is no doubt more traffic by automobile in August than there is in February. Also, what about rail traffic; is rail traffic a factor in this?

Mr. MCGREGOR: It suffers the same effect.

The CHAIRMAN: Has it gone up in February and down in August, the reverse of your figures, or is there any relationship there?

Mr. MCGREGOR: No; in fact, I understand the rail traffic pattern is very much the same as ours.

The CHAIRMAN: It is very much the same as that graph?

Mr. MCGREGOR: Yes.

The CHAIRMAN: I am only guessing, but automobile traffic would be much greater in August, would it not?

Mr. BROOME: It is the holiday season—it is the time to travel.

The CHAIRMAN: It is the same all round?

Mr. MCGREGOR: That is right. In other words, people just stay home in the winter months.

The CHAIRMAN: It does not have anything to do with T.C.A. itself?

Mr. MCGREGOR: No.

Mr. DRYSDALE: Have you a graph showing the international trips where you would have a seasonal variation?

Mr. MCGREGOR: Yes, I have the traffic pattern divided as between the Atlantic, the southern operation and the domestic. You will see that in a moment.

Mr. FRASER: There are a great number of these charter flights in the summer months, and I understand that some people go to Buffalo and take them from there, instead of T.C.A.; is that right?

Mr. MCGREGOR: That is right—and also from Burlington, Vermont.

Mr. FRASER: Why?

Mr. MCGREGOR: The reason is that there is a filed charter tariff applying to all international carriers operating out of Canada—including ourselves, of course. This was filed with the air transport board some years ago. That tariff must be adhered to.

By operating these flights from Buffalo and Burlington, any carrier can take the Canadian traffic and at the same time avoid the necessity of adhering

to the filed Canadian tariff. I have heard that there are something like 50 such chartered flights scheduled for this coming summer.

Mr. FRASER: I know there are a number of people from my own city taking them, and I wondered why that should not be changed. Is there some way in which that could be changed?

Mr. MCGREGOR: We have been pretty unhappy about this situation, as you can imagine—and it has been suggested—that the charter tariff be eliminated, because it is obviously working to the disadvantage of the Canadian carriers.

Mr. FRASER: That is what I felt. I know that the people who take these flights take them in order to get the reduced rate from Buffalo or Burlington, Vermont, and they feel they should not have to go to the United States to get that lower tariff.

Mr. MCGREGOR: Yes.

Mr. BROOME: You have recommended that change?

Mr. MCGREGOR: Yes, we have.

Mr. FISHER: You are not in a position to try to take over that traffic at that rate?

Mr. MCGREGOR: Yes, I think we could quote as good a charter rate, particularly with the Super Constellation aircraft, as any other carriers.

Mr. FISHER: You could?

Mr. MCGREGOR: Yes.

Mr. FISHER: Then what is the hold-up?

Mr. MCGREGOR: The fact that the tariff is still in being and we cannot charge below that tariff.

Mr. FISHER: Yes; but what is the hold-up in getting the change?

Mr. MCGREGOR: I do not think we should accuse the air transport board of any great hold-up. This situation has developed within the last two months, and I think we were pretty briskly off the mark in asking that the tariff be suspended, at least. But I think the feeling in the air transport board is that they must have a good look at it.

Mr. BROOME: How long will it take them to look at it?

Mr. PASCOE: Was your "pay later" plan of travel in effect in those three years?

Mr. MCGREGOR: It was in effect with respect to trans-Atlantic operations first. That went in in October, 1956. I think that for part of 1957, and all of 1958 and 1959 it was in force both in respect to trans-Atlantic and domestic.

Mr. FRASER: How does that work out? Are you benefiting from this "pay later" plan?

Mr. MCGREGOR: I was never in favour of selling transportation on credit. I think we were the last of the major air lines in the world to adopt it. But I must say that on the basis of the results I was quite wrong. The net bad debt picture is almost infinitesimal in relation to the total volume. And the use of the plan has increased steadily each year.

Mr. CHOWN: Mr. McGregor, is it possible for you to give us an economic prognosis on the results of bringing new equipment into the service, like the DC-8 and the Vanguard?

Mr. MCGREGOR: Yes, I think I can generalize on that, if I may. The effect will be—as has been suggested—that there will be an increase in expenses, other than direct operating expenses, related to the very heavy investment in new equipment, both the aircraft themselves and the associated ground equip-

ment. Also, the very heavy training program applying to both air and ground personnel will sharply increase—I hope, temporarily.

The actual operating costs per seat mile will go down, if our calculations are correct, because these large and fast aircraft are more productive. The question as to what the over-all effect will be will lie entirely in the acceptance of the aircraft and the filling of the passenger capacity. If they are operated at low load factors, they will lose us barrels of money; if they are operated at reasonably high load factors, they will I think, make a lot of money for us in the years ahead. Next slide, please.

Mr. Fraser: That is what I feel. I know that the Department takes them in order to get the reduced rate from Buffalo or Butte, Vermont, and they feel they should not have to pay the reduced rates to get that lower rate.

Mr. McGeehan: Yes, we have worked out that with the new aircraft, you have a lot of extra capacity. You have a lot of extra capacity, and you have a lot of extra capacity.

Mr. Fraser: You could? Mr. McGeehan: Yes, I think we could make a good carrier, but I think we could make a good carrier.

Mr. McGeehan: The fact that the fact is still in being and we cannot charge below that rate.

Mr. Fraser: Yes, but what is the reason for getting the charge? Mr. McGeehan: I do not think we should accuse the air transport board of any great hold-up. This situation has developed with the last two months.

Mr. McGeehan: I think we were pretty badly off the mark in asking that the fact is suspended at least. But I think the feeling in the air transport board is that they must have a good look at it.

Mr. Brooker: How long will it take them to look at it? Mr. Fraser: Was your "pay later" plan of travel in effect in those years?

Mr. McGeehan: It was in effect with respect to trans-Atlantic operations first. That went in in October, 1956. I think that for part of 1957 and all of 1958 and 1959 it was in force both in respect to trans-Atlantic and domestic.

Mr. Fraser: How does that work out? Are you benefiting from this "pay later" plan?

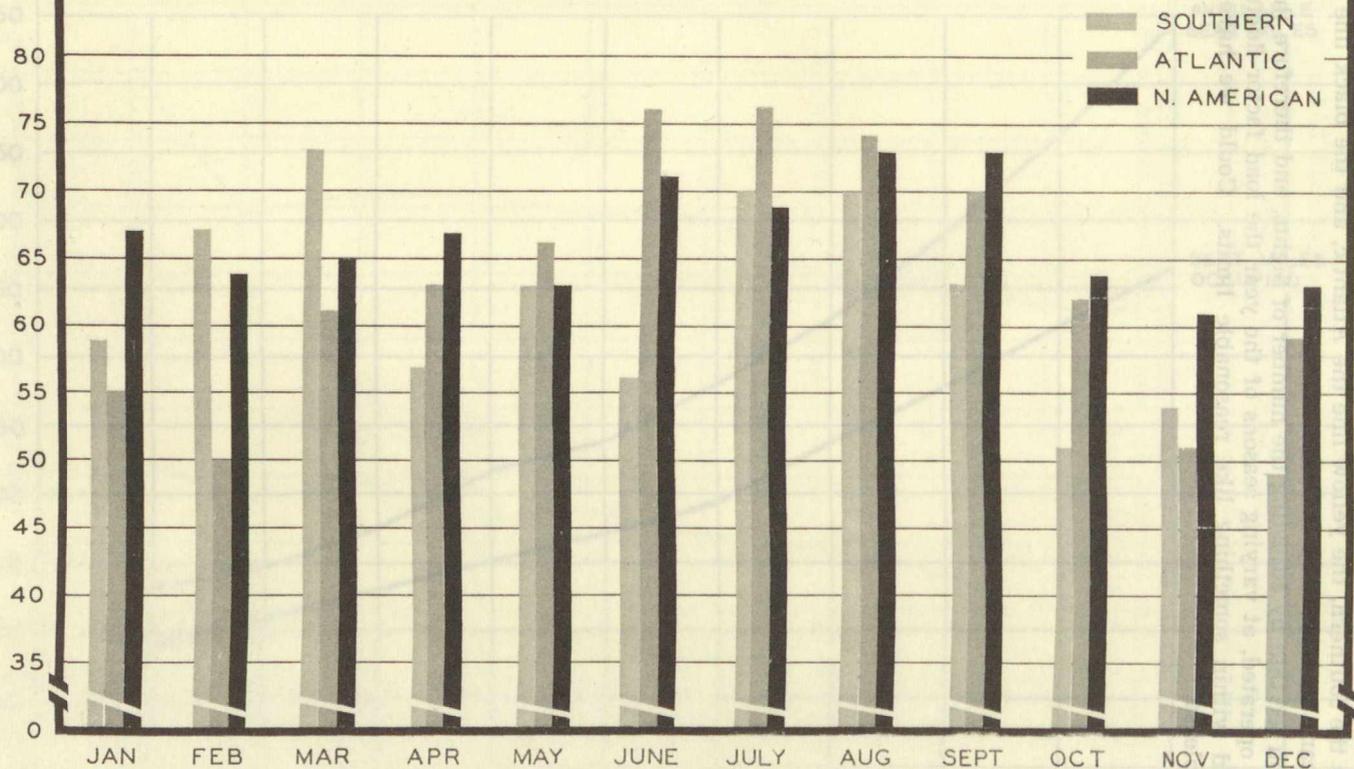
Mr. McGeehan: I was never in favour of selling transportation on credit. I think we were the last of the major airlines in the world to adopt it. I think we were the last of the major airlines in the world to adopt it.

Mr. McGeehan: Yes, I think I can guarantee that the effect will be—has been suggested—that there will be an increase in expenses other than direct operating expenses related to the new investment in new equipment, both the aircraft themselves and the associated ground equipment.

%
LOAD
FACTOR

TRANS-CANADA AIR LINES

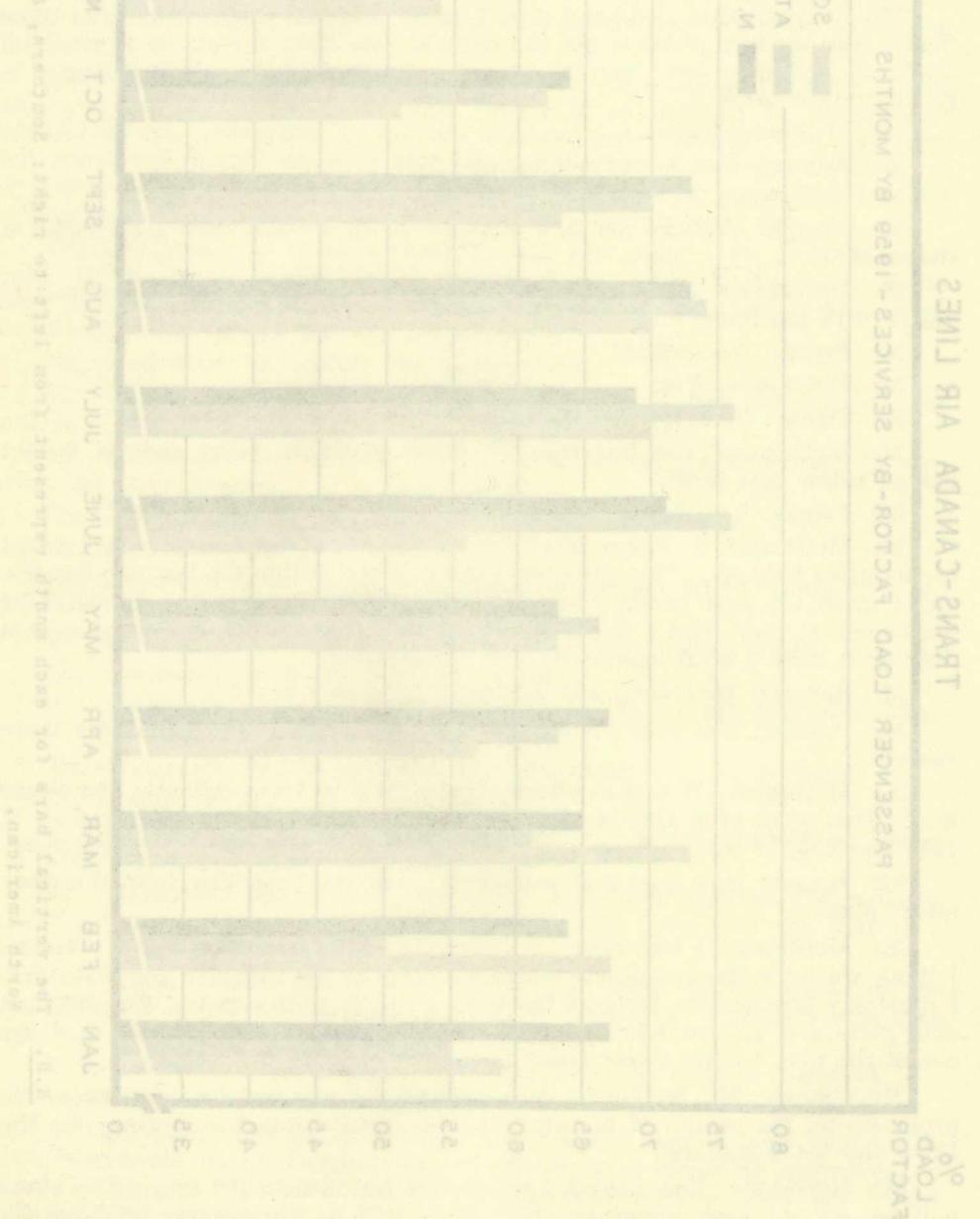
PASSENGER LOAD FACTOR-BY SERVICES-1959 BY MONTHS



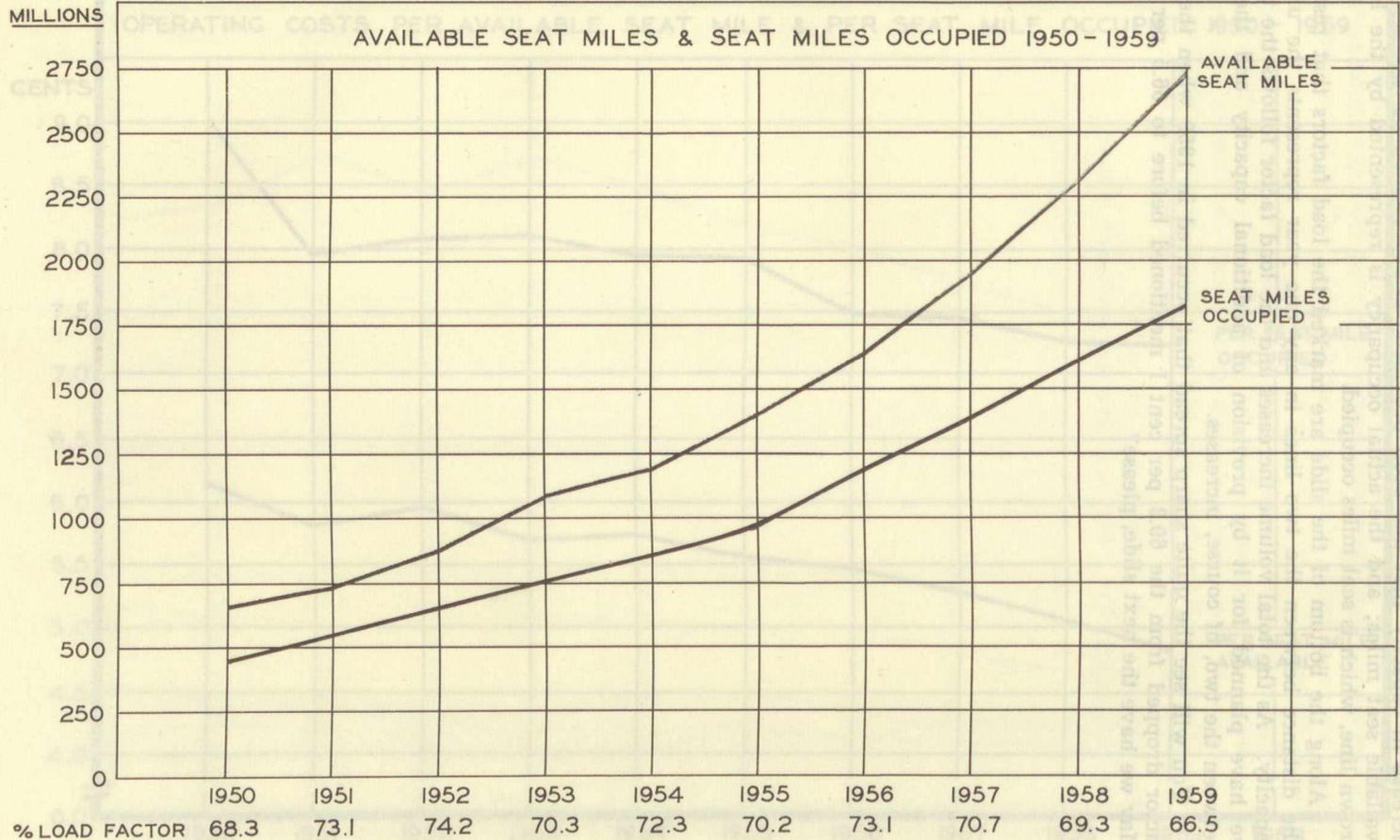
N.B. The vertical bars for each month represent from left to right: Southern, Atlantic, North American.

Mr. MCGREGOR: This slide refers back to the question that was asked, and it shows the passenger load factor; that is, the percentage of seats occupied, divided between the three major groups of the company. The blue line represents the southern, the yellow line the Atlantic, and the black line the North American.

You see that by adjusting the number of flights, and therefore the capacity that is operated, at varying seasons of the year the load factor fluctuation can be held within something like reasonable limits. Could we have the next slide, please.



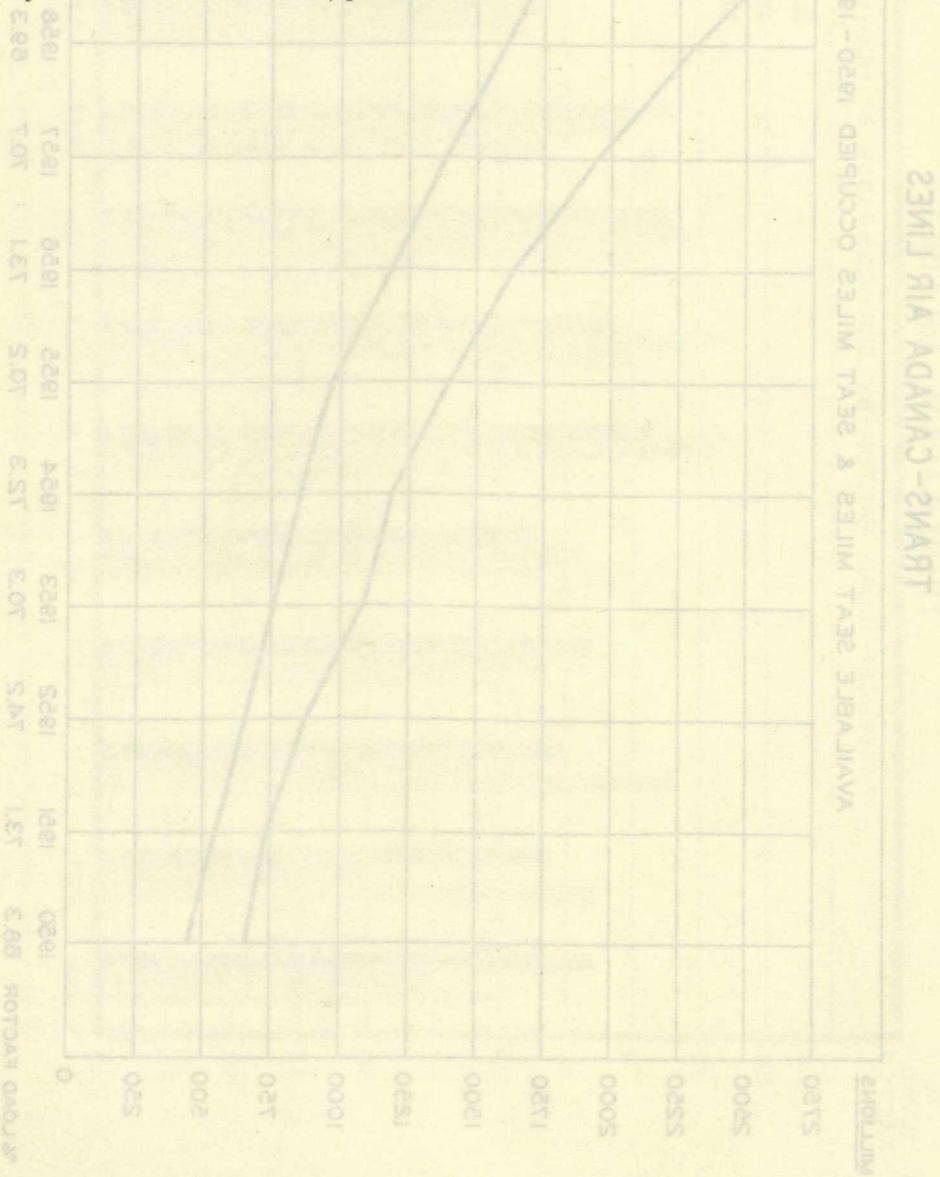
TRANS-CANADA AIR LINES



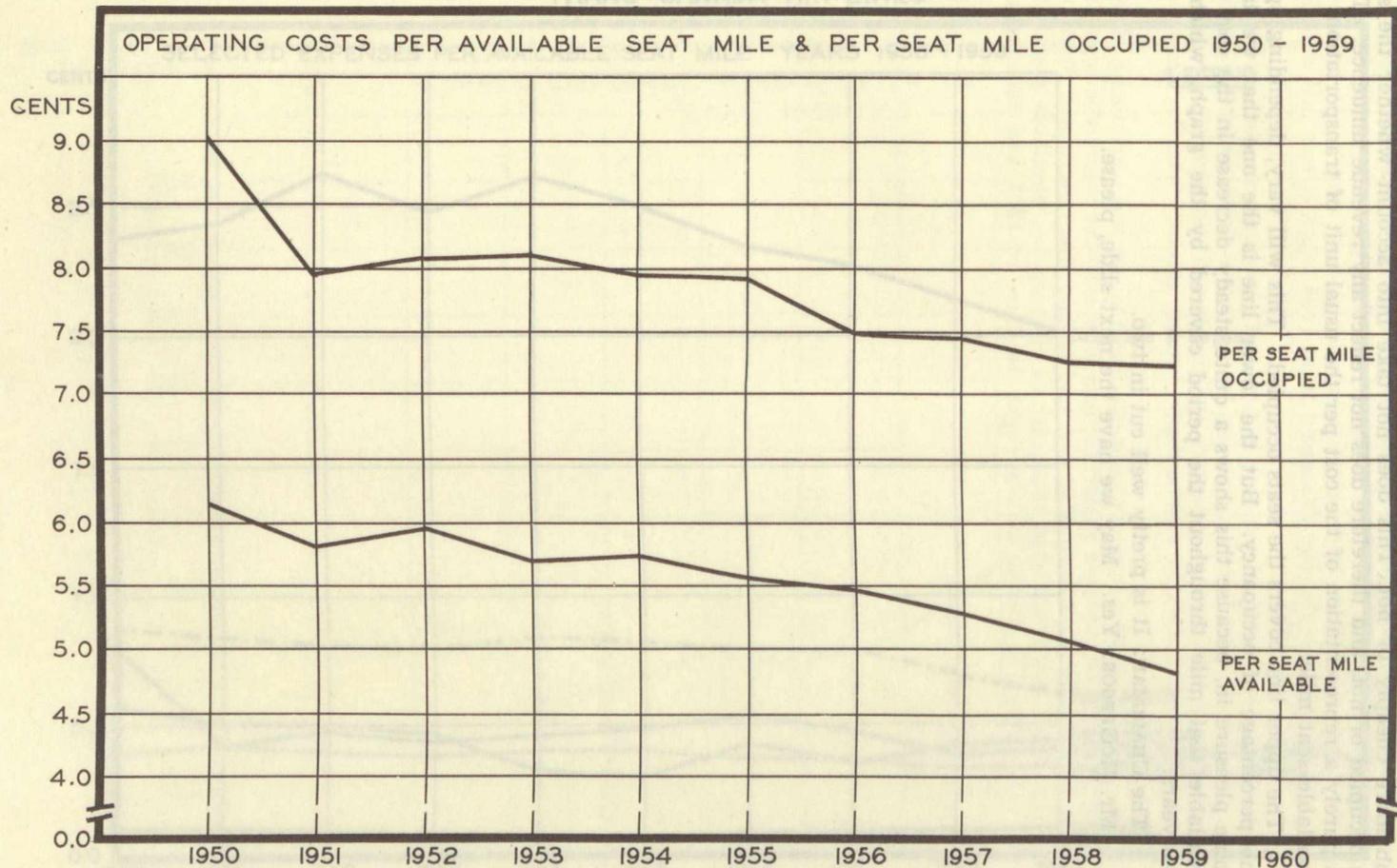
Mr. MCGREGOR: This is a portrayal of the years 1950 through 1959 of the increase in capacity that has been provided, as represented by the top line, available seat miles; and the actual occupancy is represented by the lower, brown line, which is seat miles occupied.

Along the bottom of the slide are marked the load factors that resulted. The distance between the two lines in any one year represents the unused capacity. As the total volume increases and the load factor follows the trend, we have planned for it by provision of additional capacity and the gap between the two, of course, increases.

You will see the quite sharp spread that occurred in 1959 when the load factor dropped from the 69.3 per cent I mentioned before to 66.5 per cent. May we have the next slide, please?



TRANS-CANADA AIR LINES

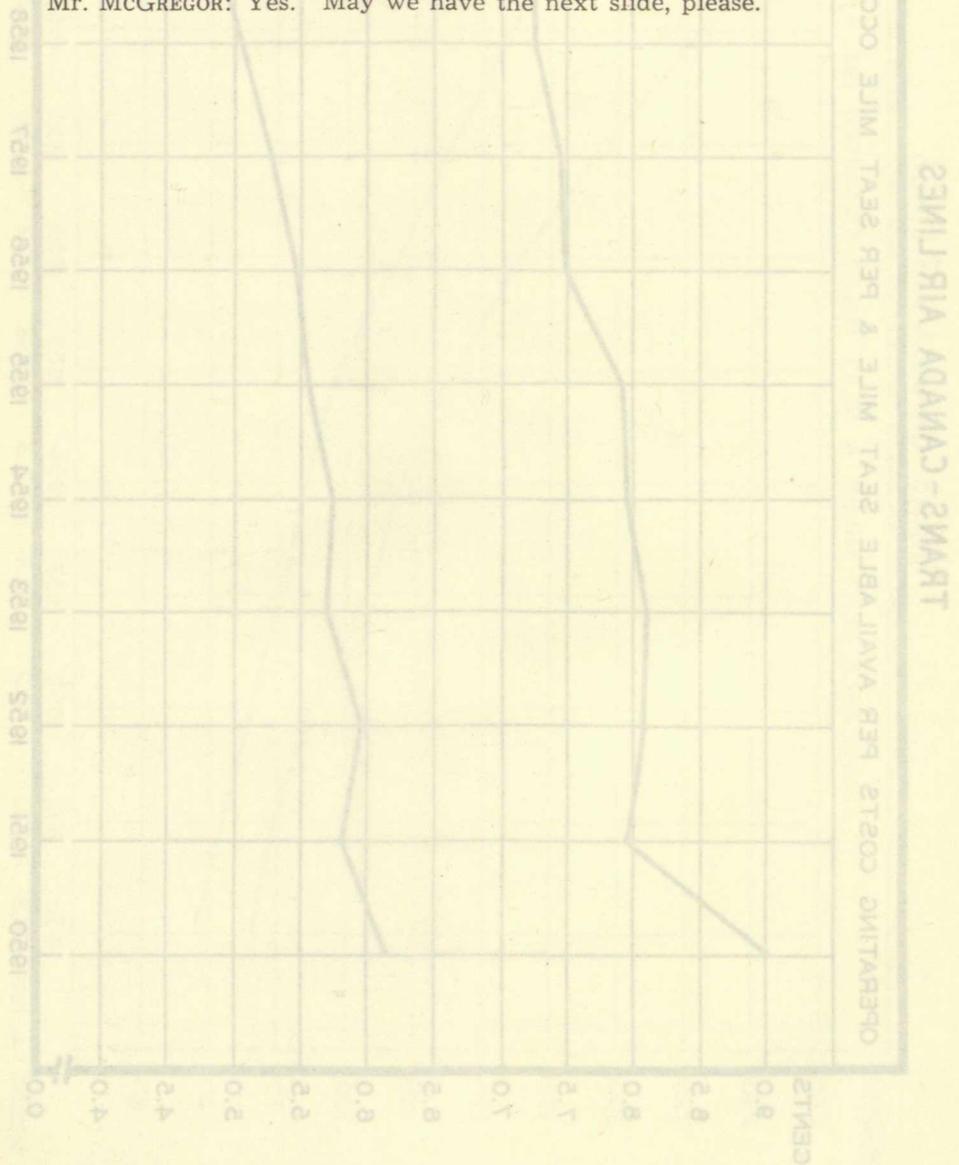


Mr. MCGREGOR: This chart shows our operating costs per available seat mile, and we regard this as the yardstick of whether we are able to do our job more cheaply or not. This does not take into account whether the seat is occupied or not, and therefore does not reflect any revenue influence. This is purely a representation of the cost per the usual unit of transportation, the available seat mile.

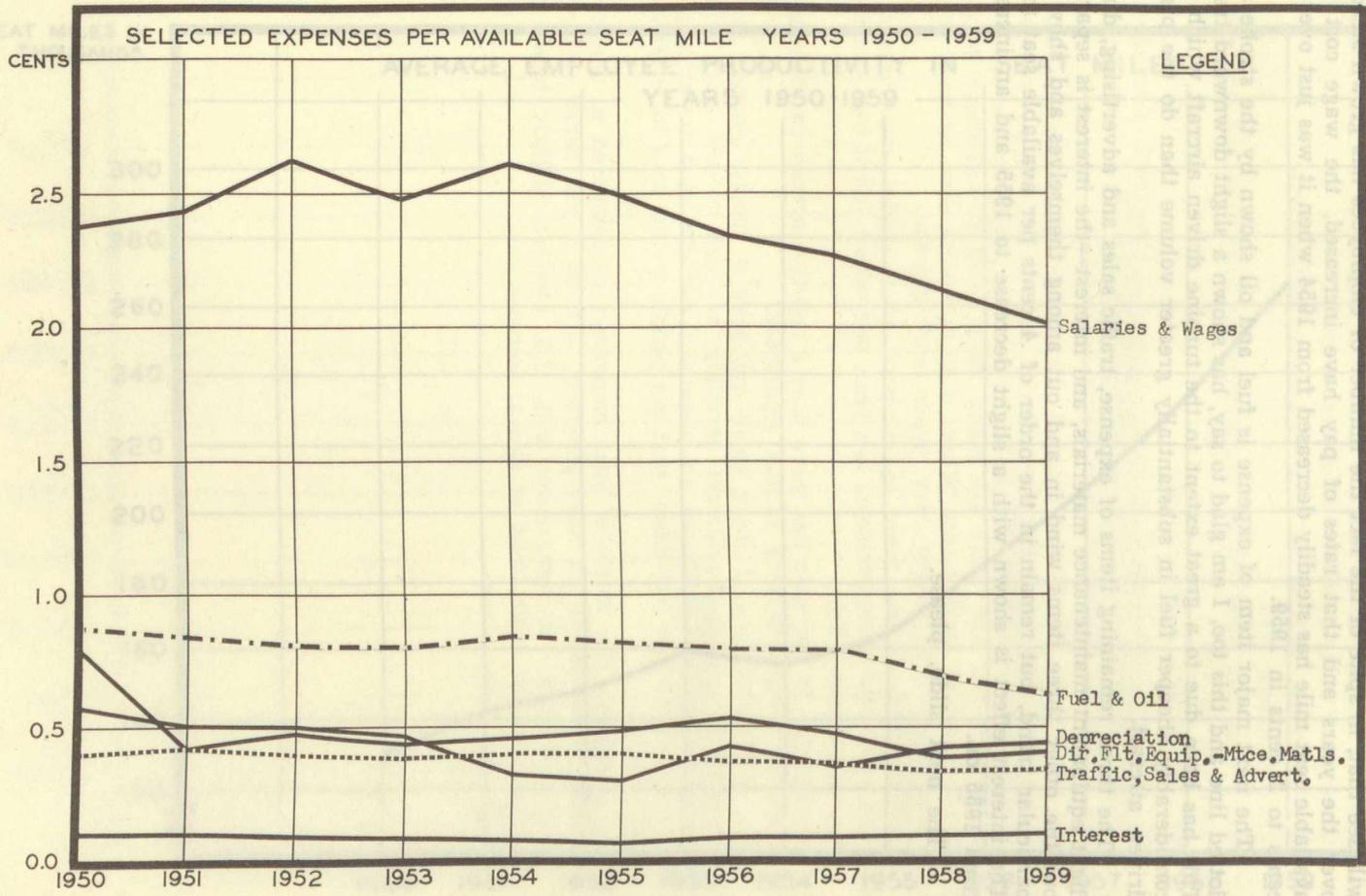
The upper line covers the seats occupied. This will vary, depending upon the percentage of occupancy. But the lower line is the one that we take some pleasure in, because this shows a quite steady decrease in the cost per available seat mile throughout the period covered by the graph, which is ten years.

The CHAIRMAN: It is pretty well cut in two.

Mr. MCGREGOR: Yes. May we have the next slide, please.



TRANS-CANADA AIR LINES

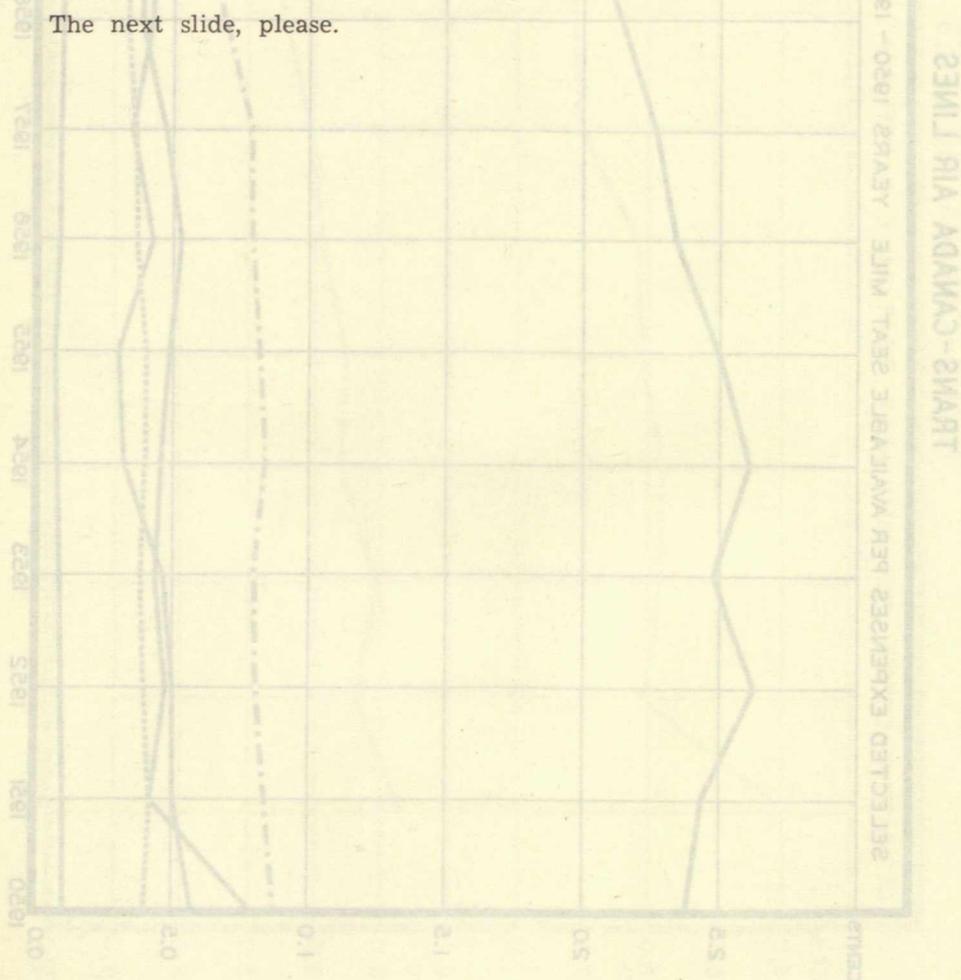


Mr. MCGREGOR: These are selected items of expenses, the major ones, of course, that go to make up the operating costs of the air line. The top line is salaries and wages and this is quoted in cents per available seat mile. You will see that, in spite of the fact the number of employees has grown steadily over the years and that rates of pay have increased, the wage cost per available seat mile has steadily decreased from 1954 when it was just over 2.6 cents to 2 cents in 1959.

The next major item of expense is fuel and oil shown by the stroke and dotted line and this too, I am glad to say, has shown a slight downward trend. This has been due to a great extent to the turbine driven aircraft which use considerably cheaper fuel in substantially greater volume than do the piston driven aircraft.

The three remaining items of expense, traffic sales and advertising, direct flight equipment-maintenance materials, and interest—the interest is separate, but the other three items wind in and out among themselves and show no particular trend, but remain in the order of .4 cents per available seat mile. The interest effect is shown with a slight decrease to 1955 and an increase from 1955 on.

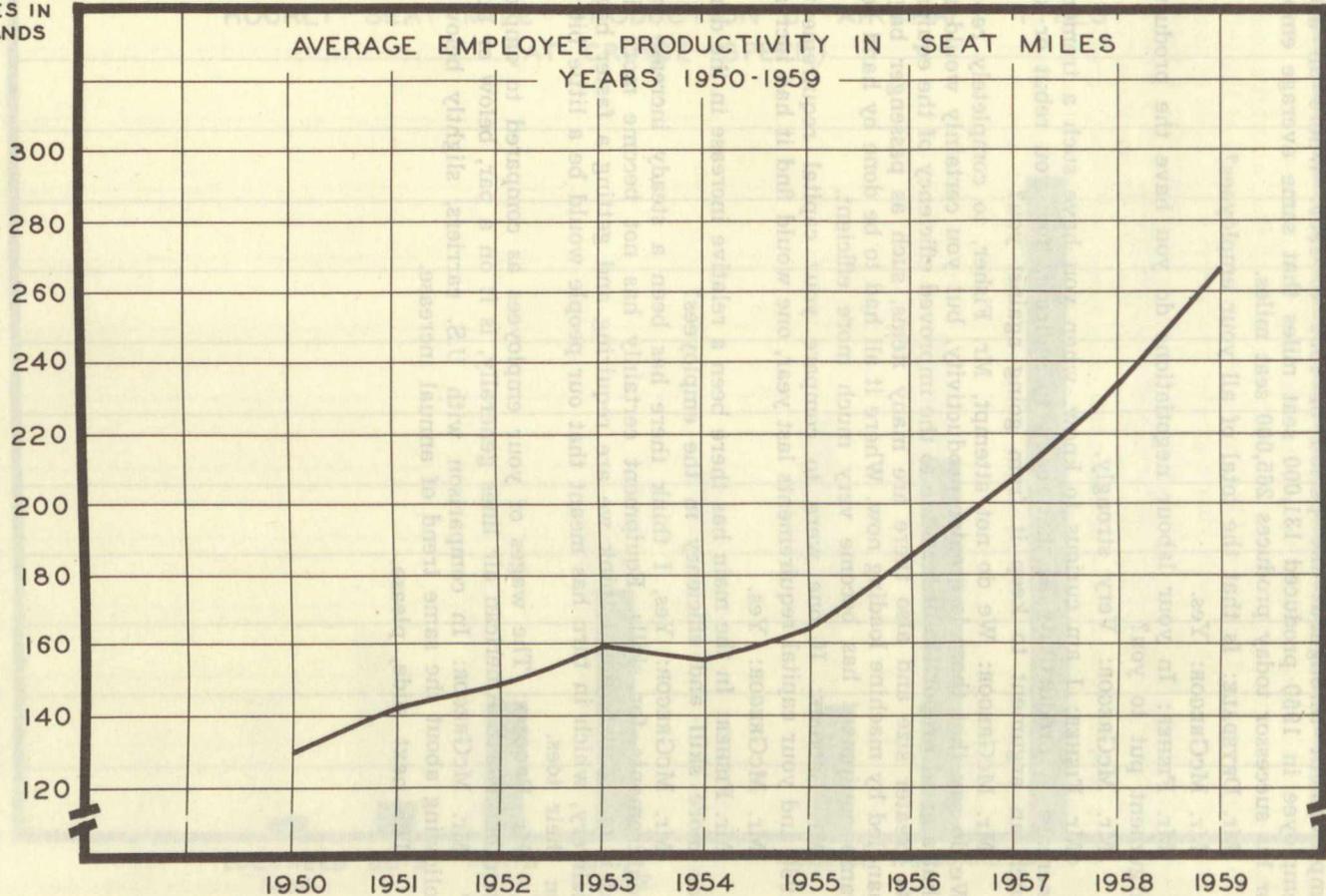
The next slide, please.



TRANS-CANADA AIR LINES

SEAT MILES IN
THOUSANDS

AVERAGE EMPLOYEE PRODUCTIVITY IN SEAT MILES
YEARS 1950-1959



Mr. MCGREGOR: This is the average employee productivity stated in thousands of seat miles per average employee. This shows very substantial improvement throughout the period of 1950 to 1959. Where an average employee in 1950 produced 131,000 seat miles that same average employee or his successor today produces 265,000 seat miles.

Mr. DRYSDALE: Is that the total of all your employees?

Mr. MCGREGOR: Yes.

Mr. FISHER: In your labour negotiations do you have the productivity argument put to you?

Mr. MCGREGOR: Very strongly.

Mr. FISHER: I am curious to know, when you have such a tremendous increase in productivity as that seems to indicate, how you rebut or sit on such an argument to keep it from going against you?

Mr. MCGREGOR: We do not attempt, Mr. Fisher, to completely rebut it. We do say that there is greater productivity, but you certainly would admit that a great proportion of it is due to the improved efficiency of the equipment, its greater size and also there are many items, such as passenger baggage, handled by machine loading now. Where it all had to be done by hand before, ramp equipment has become very much more efficient.

Mr. BROOME: If one were to compare your capital requirements in 1950 and your capital requirements last year, one would find it had increased?

Mr. MCGREGOR: Yes.

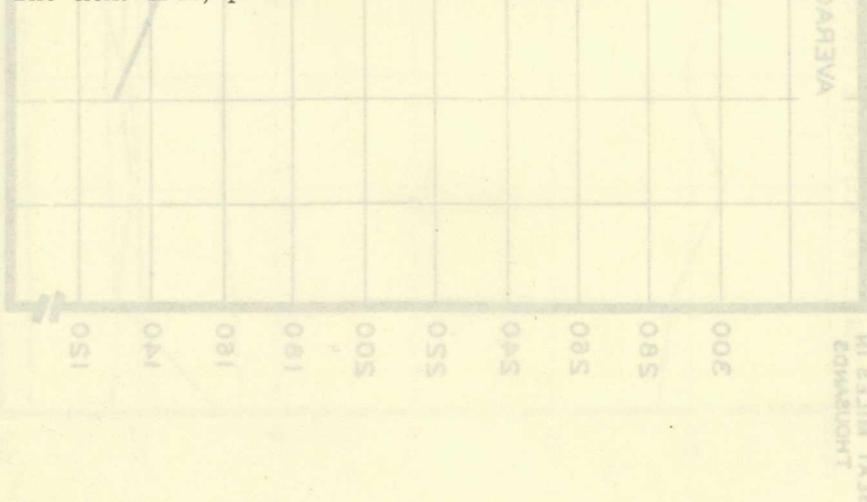
Mr. FISHER: In the main has there been a relative increase in the demand for more skill and efficiency in the employees?

Mr. MCGREGOR: Yes, I think there has been a steady increase in the requirements for skills. Equipment certainly has not become more simple as it has grown, and I think we are requiring and getting a faster baggage delivery, which in turn has meant that our people would be a little bit more on their toes.

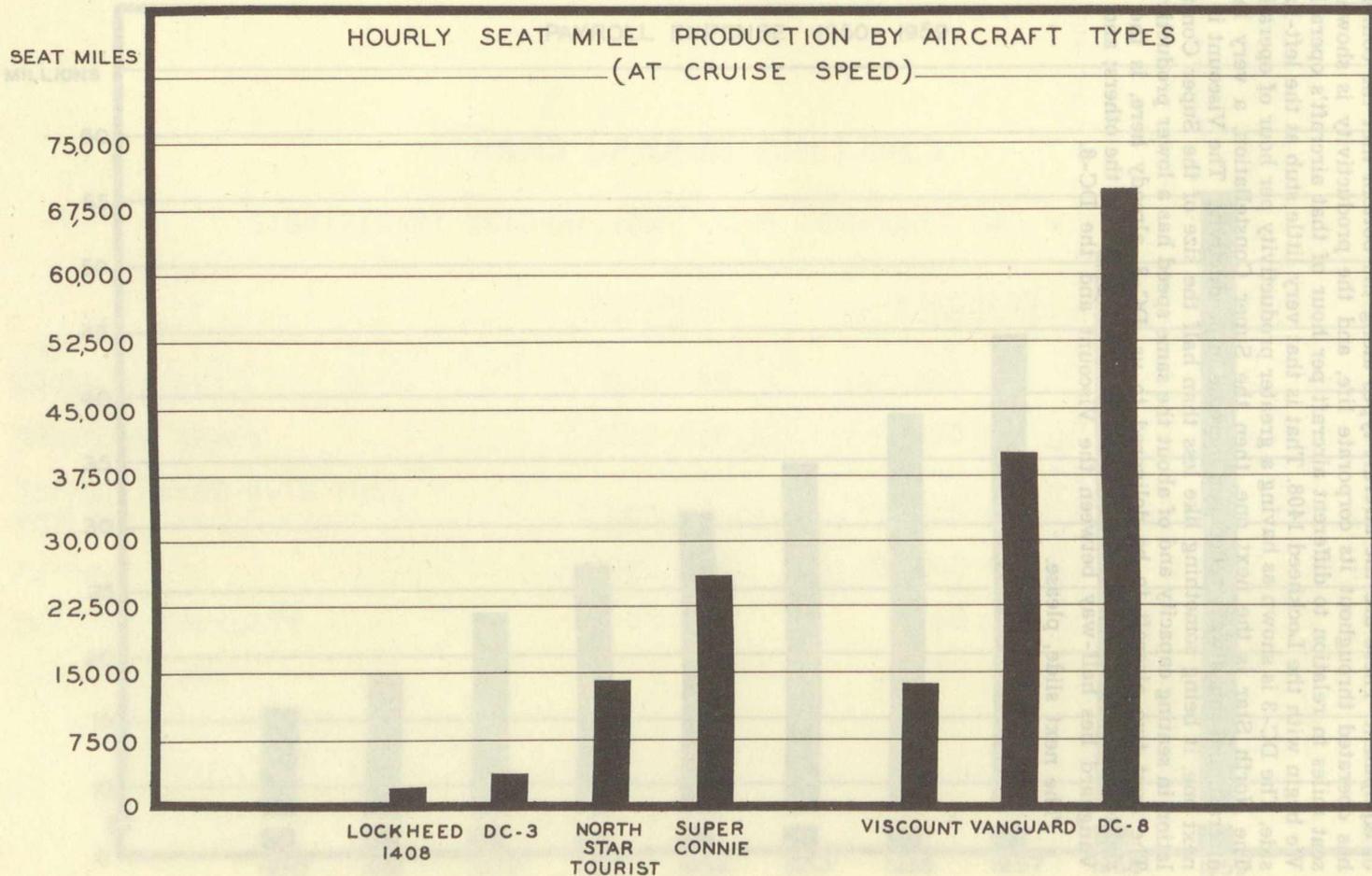
Mr. BROOME: The wages of your employees as compared to employees in other North American air lines generally, is it on a par, below or above?

Mr. MCGREGOR: In comparison with U.S. carriers, slightly below and following about the same trend of annual increase.

The next slide, please.

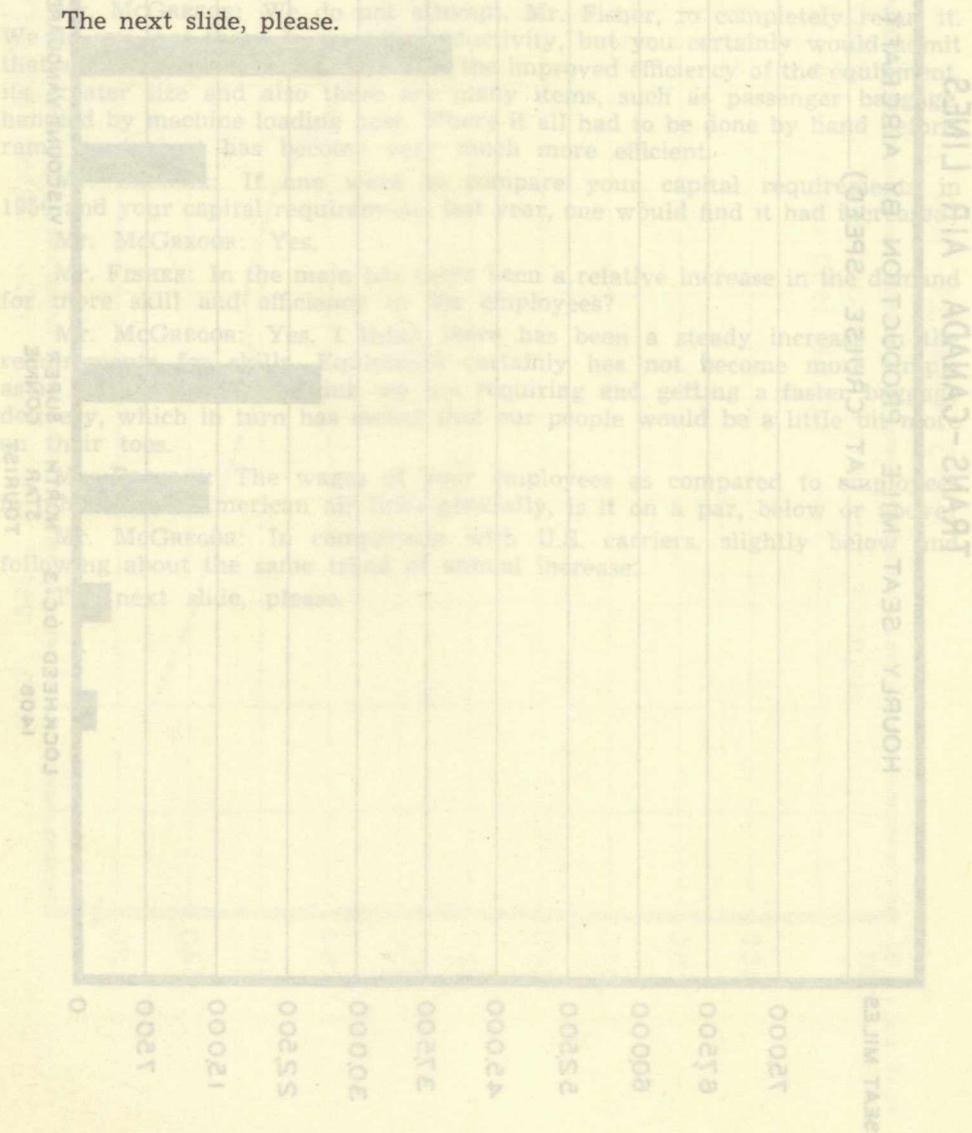


TRANS-CANADA AIR LINES



Mr. McGREGOR: This is a slide which is of interest. Some of it touches on the point raised by both Mr. Fisher and Mr. Broome on the productivity of equipment. These are the aircraft types along the bottom that the company has operated throughout its corporate life, and the productivity is shown in seat miles in relation to different aircraft per hour of that aircraft's operation. We begin with the Lockheed 1408. That is that very little stub at the left-hand side. The DC-3 is shown as having a greater productivity per hour of operation. The North Star is the next one, then the Super Constellation, a very large aircraft, and this always reflects an increase in productivity. The Viscount is the next one, it being something like less than half the size of the Super Constellation in seating capacity and of about the same speed has a lower productivity. The next two aircraft to be delivered to us, DC-8, already here, is the far right-hand one with tremendous productivity in relation to the others; and the Vanguard lies half-way between the Viscount and the DC-8.

The next slide, please.



Mr. Fisher: Is that completely correct? It shows that the productivity of the equipment is increasing, but you certainly would not want to increase the size of the equipment, because of the increased efficiency of the equipment. It is a matter of size and also these other items, such as passenger baggage, which is handled by machine loading now. If all had to be done by hand, it would be a very inefficient operation. It has become very much more efficient.

If one were to compare your capital requirements with those of the other airlines, and your capital requirements last year, one would find it had increased.

Mr. McGeehan: Yes.

Mr. Fisher: In the main, have there been a relative increase in the productivity of the employees for more skill and efficiency in the employees?

Mr. McGeehan: Yes. I think there has been a steady increase in the productivity of the employees. Experience certainly has not become more efficient, but we are requiring and getting a faster pace of work, which in turn has meant that our people would be a little more efficient on their toes.

The wages of our employees as compared to those of the other airlines, American air lines, especially, is it on a par, below or above?

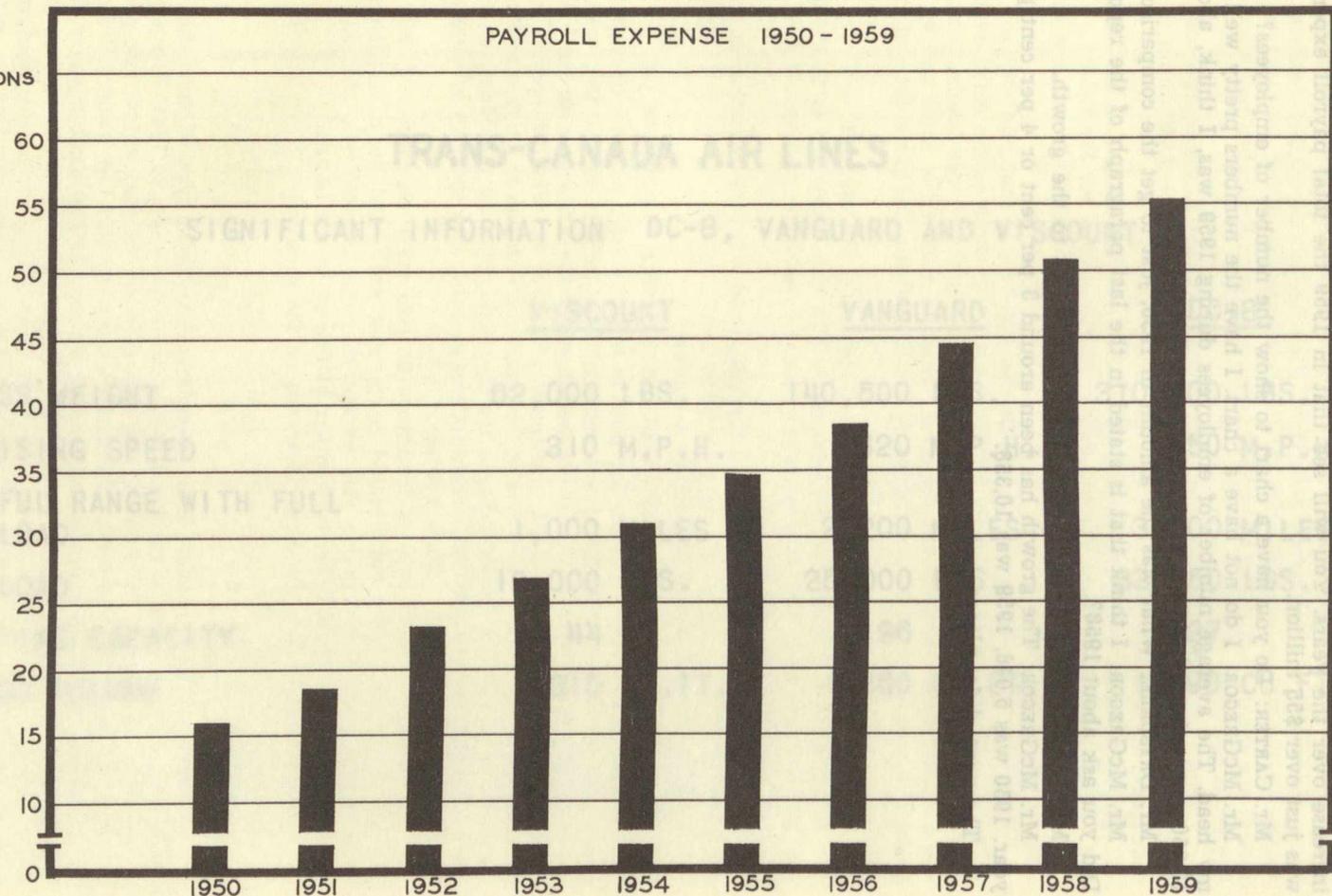
Mr. McGeehan: In comparison with U.S. carriers, slightly below, but following about the same trend of annual increase.

The next slide, please.

TRANS-CANADA AIR LINES

PAYROLL EXPENSE 1950 - 1959

MILLIONS



Mr. MCGREGOR: This slide shows payroll expenses and is of no particular interest, except to the recipients, but it is a rather uniquely straight line of increase over the years. You will see that in 1959 the total payroll expense was just over \$55 million.

Mr. CARTER: Do you have a chart to show the number of employees?

Mr. MCGREGOR: I do not have a chart. I have the numbers pretty well in my head. The average number of employees during 1959 was, I think, about 10,350, approximately.

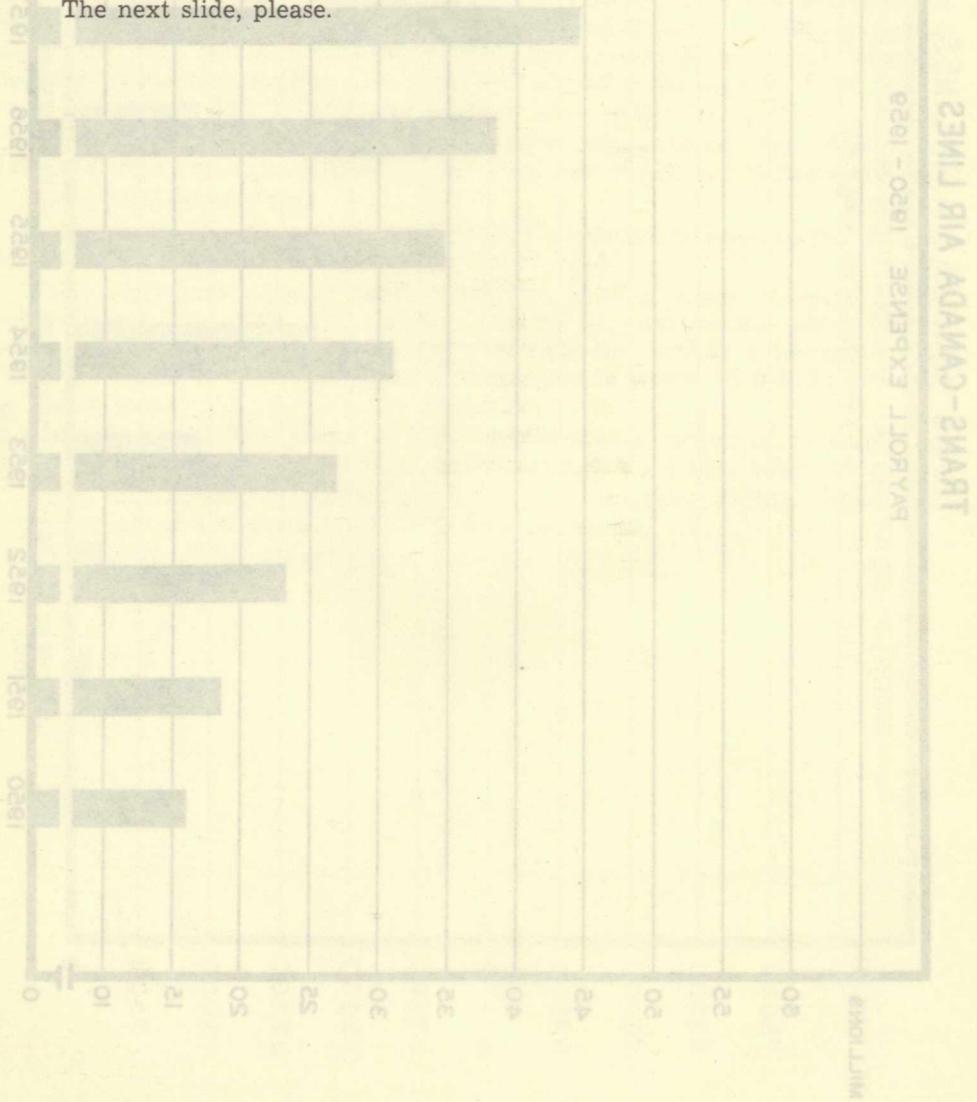
Mr. DRYSDALE: What was the amount in 1950, just to get the comparison?

Mr. MCGREGOR: I think that is stated in the last paragraph of the report. Did you ask about 1958?

Mr. DRYSDALE: No, 1950, to get an indication as to the growth.

Mr. MCGREGOR: The growth has been around 3 per cent or 4 per cent per year. 1950 was 5,046, 1959 was 10,358.

The next slide, please.



TRANS-CANADA AIR LINES

SIGNIFICANT INFORMATION DC-8, VANGUARD AND VISCOUNT

| | <u>VISCOUNT</u> | <u>VANGUARD</u> | <u>DC-8</u> |
|--------------------------------|-----------------|-----------------|--------------|
| GROSS WEIGHT | 62,000 LBS. | 140,500 LBS. | 310,000 LBS. |
| CRUISING SPEED | 310 M.P.H. | 420 M.P.H. | 550 M.P.H. |
| USEFUL RANGE WITH FULL PAYLOAD | 1,000 MILES | 2,200 MILES | 3,800 MILES |
| PAYLOAD | 10,000 LBS. | 25,000 LBS. | 33,750 LBS. |
| SEATING CAPACITY | 44 | 96 | 127 |
| CARGO VOLUME | 315 CU.FT. | 1,360 CU.FT. | 1,390 CU.FT. |

Mr. MCGREGOR: This slide is here to described the basic qualities of the various aircraft that will be in the fleet and the only ones in the fleet in 1961. They are all turbine powered, all four-engined, and all pressurized. These are very essential features. Gross weight of the Viscount is 62,000 pounds, the Vanguard 140,500 pounds, and the DC-8 310,000 pounds. Then, all the cruising speeds are shown in the next line, 310 miles per hour, 420 miles per hour and 550 miles per hour.

Useful range with full payload. This includes all factors taken into account, as bad weather, fuel reserves and so on. These ranges are 1,000 miles, 2,200 miles and 3,800 miles.

Payload, which has been referred to earlier, 10,000 pounds in the case of the Viscount, 25,000 for the Vanguard, and 33,750 pounds for the DC-8.

Seating capacity, as we plan to use them, 44, 96 and 127, and the cargo volume on the bottom line.

An interesting feature, of course, in this last line is that you will see the cargo volume of the Vanguard is almost exactly the same as the cargo volume of the very much larger DC-8. This is due to its double bubble fuselage, which has a compartment underneath the floor, which is almost the same size as the passenger compartment and capable of carrying about the same amount of a cargo.

Mr. BROOME: What is the difference in prices of the aircraft?

Mr. MCGREGOR: Including Federal Sales Tax the Vanguard is \$2,800,000; the DC-8 \$6,200,000, and the average price we paid for the whole fleet of Viscounts is about \$1,100,000.

Mr. BROOME: In terms of payload the Vanguard is a very attractive aircraft for the money?

Mr. MCGREGOR: Yes, I think that is correct.

Mr. FRASER: May I ask what routes you are going to put them on?

Mr. MCGREGOR: Mr. Fraser, the plan is initially that we will operate the DC-8, only on the longer legged transcontinental operations, that is, the one-stop non-stop and trans-Atlantic; that we will operate the Vanguard on the transcontinental service including the maritimes, of course, on which there are more stops planned, and that we will also operate the Vanguards on the southern operations and on the heavy volume transborders, such as the Montreal-New York, Toronto-New York and Toronto-Chicago runs, and that we will operate the Viscounts on all the shorter routes.

Mr. BADANAI: What type of insurance do you carry on these aircraft?

Mr. MCGREGOR: We carry third party risk only, and on a catastrophic basis, and we self-insure every risk except that and ground risk, that is, loss of aircraft on the ground due to weather or fire or in the hangar.

The CHAIRMAN: Do you have insurance on the ground?

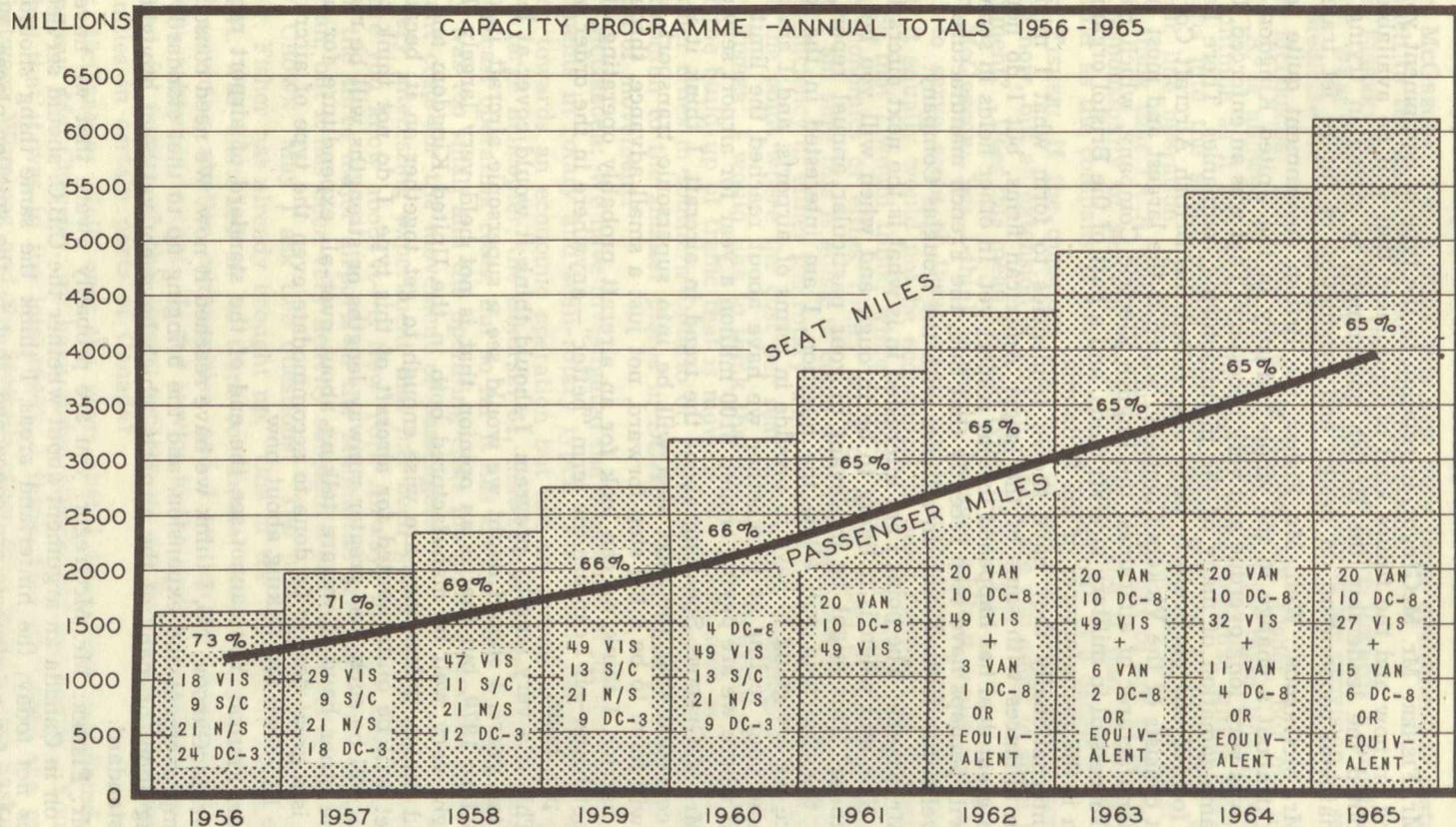
Mr. MCGREGOR: Yes.

Next slide, please.

Mr. MCGREGOR: This chart is an example of a working type of chart that we use in fleet planning, and it carries through, as you will see, to 1965. The height of the vertical columns by years is the seat capacity in seat miles. The green line shows the expected trend, historically accurate and the expected trend for the future years, of passenger miles that we will be required to carry. The load factors are shown in the percentage figures right above the green line. The make-up of the fleet in any one year that will produce this seat mile capacity is listed, and it shows, as you will see, the phasing out of the piston engined aircraft during this transition period, and the phasing in of the Vanguards and DC-8's, and the increase that has taken place in the past in the size of the Viscount fleet.

TRANS-CANADA AIR LINES

CAPACITY PROGRAMME - ANNUAL TOTALS 1956 - 1965



Some of these figures, perhaps, are not too easy to read from the back of the room, but this chart can be seen either now or afterwards in its original form.

Mr. FISHER: Mr. McGregor, in relation to the type of equipment you have coming on now and the future kind of equipment that will be available, have you noted the leadership the British government is giving in trying to get international cooperation on design and production of future jet transports?

Mr. MCGREGOR: Well, Mr. Fisher, the British government quite recently brought about a change in the whole industry in the United Kingdom that I think was very long overdue and very necessary. That was an enforced, I might say, amalgamation of many of the manufacturing companies. There has now been formed one particularly large one, called the British Aircraft Corp. Ltd, and it consists of the Vickers Company, which is the largest and most successful manufacturer of airframes, the English Electric Company, which has been very successful in military aircraft fields, and a part of the Bristol organization, which is the manufacturer of the Britannia.

Internationally they have shown tendencies to form what I might call design alliances with some of the larger American firms, but I do not know that a great deal has happened in that respect yet. In other fields in some areas you will perhaps have seen recently that Sud, the French manufacturer of the Caravelle, has formed such an alliance with the Douglas Company.

Mr. FISHER: The point I am interested in is what is the next aircraft likely to be like, and when is it likely to be through and when will you be getting into these? This might be irrelevant to your particular annual report, but I think the chairman will allow the question. I am interested in the kind of service we are going to have to provide in terms of airports, and I am curious to know your feeling as to whether we have about reached the limit of this period where we are paying around \$100 million a year for airport service.

Mr. MCGREGOR: Speaking about the trend in aircraft, I think it is pretty well conceded that the next step will be into supersonic transport aircraft. This will have to be a big step forward, not just a small advance, through the sonic barrier. I think we can look for an aircraft probably operating at mach 2, if not better—if I can use the term “better”—anywhere in the order of 1,500 miles per hour.

This is a very lengthy program. I should think it would cover at least the next ten years. I should doubt we would see a supersonic aircraft in civilian use before 1970, but that is an opinion that is not held very largely. I think it might very well be manufactured both in the United Kingdom and in the United States, unless they are wise enough to get together on it, because the market will be quite limited for aircraft of this type. I do not think that its design will be such that greater runway lengths or strengths will be required. On the other hand if we are talking about over-all expenditure for airports there is a great deal to be done to accommodate even the type of aircraft such as the DC-8 we are talking about now.

Mr. FISHER: You cannot see the end of the standard of airport required?

Mr. MCGREGOR: No, I think we have reached it now. We need consolidation and improvement and expansion, and the bringing up to that standard we are talking about of many of the airports which have not yet been brought up to that standard.

Mr. FISHER: Mr. McGregor, you are probably aware that we have today going on in Canada an argument about whether the C.B.C. should service areas it does not today, the hinterland areas. I think the same thing should be of interest as far as airports are concerned, that is, the smaller places. What do you say will be the effect of the new kind of equipment? Does it not take us

away from that kind of service that Medicine Hat or Cornwall or Niagara Falls or St. Catharines or places like that can look forward to in the future with respect to this type of equipment we are talking about?

Mr. MCGREGOR: Yes, I think this new very large equipment is restricted very much to the long-range, non-stop operations.

Mr. FISHER: What is your thinking on the move towards a provision of service? What role do you think T.C.A. should play in the provision of service for the Medicine Hat type of station?

Mr. MCGREGOR: Well, this is a big subject, Mr. Fisher, but my feeling is if T.C.A. is allowed to maintain the higher density main line operations it can continue as it has done in the past to cross-subsidize within itself the operations into the small points that obviously are not economically sound as an air line operation. If that condition does not continue to exist then I do not think that T.C.A. will have any alternative but to ask to be relieved of the responsibility of serving the small points, and if that is not granted then as far as the company is concerned it will operate at a deficit.

Mr. FISHER: If the questions was one of not the small points you are servicing now, but an extension of service, where are you going to go in terms of equipment? Does this mean vertical types of aircraft?

Mr. MCGREGOR: Yes, I think it would, because while it would not be economical to serve some of these small points with these large four-engined aircraft, it equally would not be economical to build runways at airports for them. So that I would think, while I cannot see very much immediate hope for the economics of either rotary wing or other types of vertical take-off aircraft, I am sure this is going to come with the development over the years, that the efficiency of either the rotary wing or the v.t.o. aircraft will eventually come to the point where the cost per seat mile makes reasonable sense.

Mr. FISHER: I would like to think that the T.C.A. thinking was along the lines of the build-up of traffic that is moving into places such as Malton from the smaller cities in southern Ontario or, conversely, moving in from Calgary and Edmonton to the smaller places in DC-2's. What have you in mind for that kind of movement?

Mr. MCGREGOR: We have investigated the economics of all the more recent developments in rotary and semi-rotary types. The result has been a steady approach towards an economic operation but not an arrival at it yet. There is a new large helicopter, the Sikorski 61, that begins to get rather tempting in its forecast operating costs, but so far it has always been the case that the capacity was too small and the operating costs too high to produce other than exorbitant costs for the movement of passengers.

A very interesting experiment that has been going on for some years—I am sure you know about it—is New York Airways that has been operating between the three major airports in the Manhattan area, and into downtown Manhattan, but it has been very heavily subsidized and continues to be.

Mr. CHOWN: May I ask two questions? The first has to do with something Mr. Fisher has already brought up. One of the reasons, if I remember, the T.C.A. was disturbed in its trans-continental services at least was the idea of servicing smaller communities, and I am aware of what T.C.A. is doing with reference to that. Is the service to the smaller communities being abandoned in favour of the larger centers, or is T.C.A. servicing smaller communities in certain parts of Canada?

Mr. MCGREGOR: Well, over the years that I have been associated with the company, Mr. Chevrier, we have added several smaller points. You will remember that it was in the late 1940's, I think, that we added the prairie points between Winnipeg and the foothills other than Regina and Saskatoon, which had already been served. These consisted of Brandon, Swift Current,

Yorkton and Medicine Hat. We have added small places in the maritimes such as Yarmouth. Generally speaking, the trend up until at least a few years ago, has been that we have added small points. I am quite certain the war played a great part in this because training airports and training establishments were built close to these smaller communities where otherwise the traffic volume, I do not think, would have justified the construction of these airports for the purely civil purpose. We are now, I think, confronted with something of a problem, because these airports are no longer satisfactory for the operation of aircraft such as the Viscounts, and it is the smallest aircraft that we will have in our fleet in 1961. I do not want to encroach on government policy or planning at all, but there is obviously a conflict in the size of the airports and the size of the smallest aircraft that we will have in the near future.

Mr. CHOWN: Does not this open up an outlet for the smaller carrier? Have they not then a very encouraging trend towards a greater passenger and cargo carrying on their part?

Mr. MCGREGOR: It may be but they do not seem to think so.

Mr. CHEVRIER: May I follow up? You were saying something about the helicopter service, returning to this idea of the smaller centers for the moment. What is the future for operation of helicopters in downtown areas? I refer, of course, to Montreal and Malton, which I am sure you have in mind. How soon is that service going to be put into effect and what will be used in it?

Mr. MCGREGOR: Well, Mr. Chevrier, we touched on that point a little while ago I think before you came in and I said, where these services do exist, such as the Manhattan area, Chicago, Los Angeles and Brussels, they are uneconomic at the present time and I expressed the opinion that I thought the development of the rotary or semi-rotary type of aircraft, such as the Rotodyne would probably make it economic in the future, but I cannot guess when.

Mr. CHEVRIER: Well, would it be operated by T.C.A. or someone else?

Mr. MCGREGOR: It could be either.

Mr. CHEVRIER: But you have not got in mind the operation of any quick downtown service via helicopter or rotary aircraft in the near future?

Mr. MCGREGOR: We are investigating one case, and I would rather not go too far into that because it involves other organizations very extensively at the present time.

Mr. FISHER: There was a question interjected—

Mr. MCGREGOR: Is that what you were going to speak to, Mr. Fisher?

Mr. FISHER: Yes.

Mr. MCGREGOR: May I refer to why the smaller carriers are not too interested in those points. The answer is the operating costs and the revenues lie too close together and in some cases, in the wrong position, one to the other.

I do not think there is any harm in naming names. The Trans-Air, a well established company operating out of Winnipeg, very closely investigated the costs of operating the prairie run I have just spoken about and found that the economics were not attractive. At the time, they were not prepared to take on the operation, although we were quite prepared to relinquish our position.

Mr. FISHER: Is it possible to develop, do you think, any formula—I am assuming first of all that competition of this sort, a bifurcated competition, is going to continue to exist between C.P.A. and T.C.A. do you think it is possible, or are you thinking of developing a formula that would keep some kind of balance so that, in so far as the unprofitable kind of "rotas" you are now flying are concerned, that would also be balanced out.

Mr. MCGREGOR: We have contended that that should be the case. The minister, I am glad to say, has stated this as being the policy, that if trans-continental competition was to be provided, as it was in a limited degree, with the carrier getting that route to operate, then he would be expected to bear his share, as it were, of the economically unsound short operations.

Mr. FISHER: Well, how can you work that out? Does it have to be an air transport board determination, the relevant standing of the various routes?

Mr. MCGREGOR: I would think it would have to be a government authority and presumably the air transport board.

Mr. CHEVRIER: Mr. McGregor, you say some place in the report that the passenger load factor has declined from 69.3 to 65.5 and it seems to be implied in the report that this is due to transcontinental service.

Mr. BROOME: On a point of order, Mr. Chairman, we were supposed to be going through these slides and we have had a lot of latitude on that. We might as well not be in total darkness around here. Are not we supposed to be going through the slides and asking questions on the slides until we get through them and then if there are any other areas of questions in regard to the report, it is then that they will come up?

Mr. CHEVRIER: Well, Mr. Chairman, I have no objection to that procedure provided it is followed by everyone.

Mr. BROOME: We are just going to sit around here in the dark.

Mr. MCGREGOR: As a matter of fact we were very nearly at the end of our first group of slides.

Mr. CHEVRIER: Well, let us go on with the slides with the understanding that after looking at the slides we can ask questions then.

Mr. DRYSDALE: One more question before you leave that slide. Is that your projection— five years, or do you, in practice, go beyond the five-year period?

Mr. MCGREGOR: We do in certain cases, particularly in the matter of money requirements, which will be dealt with in just a moment. We try to confine the forward-looking of the fleet requirements to the period that we think we can estimate reasonably accurately, but when we are selecting a new aircraft type, then we do project ten years ahead, or longer.

Mr. DRYSDALE: You had indicated that there is probably going to be mach 2 plus in the future. Can the present runways, for example, in cities like Montreal, Vancouver and Toronto handle that type of aircraft?

Mr. MCGREGOR: Yes. An airport that can handle the DC-8 will, in my opinion, be able to handle the supersonic aircraft as it will be designed.

Mr. DRYSDALE: Then, you would say also that the trend will be to establish the new airports or expansions probably quite a way from the centres of towns, because of the noise factor of the jets?

Mr. MCGREGOR: I think, Mr. Drysdale, that the airport location is pretty well fixed for most Canadian centres of any size now. There has been so much money invested that I would not look for much abandonment of existing airport locations.

Mr. DRYSDALE: And the only problem will be of a sort that has been raised. But to crystallize it: as the speed of the aircraft picks up then I think the travelling public will be more insistent on getting into the downtown area more quickly, and I guess with traffic congestion you are looking to the future when you will eventually be forced into some faster system of inter-city communication?

Mr. MCGREGOR: That is correct.

Mr. DRYSDALE: Are you doing any development of that yourself towards any particular type of thing?

Mr. MCGREGOR: In aircraft design?

Mr. DRYSDALE: Yes.

Mr. MCGREGOR: No, we leave that strictly to the manufacturers.

Mr. DRYSDALE: If I am asking something you do not want to disclose, just tell me, but have you indicated to any particular aircraft company your wish for a specific type of design to cover that problem?

Mr. MCGREGOR: No, the trend in communications is entirely in the other direction. There are very few manufacturers that are not exploring every possibility of selling their product.

Mr. DRYSDALE: It is then your policy, basically, just to get the passengers down to the airport and you are trying to let technological developments or other people figure out a method of getting them from the airport to the downtown areas?

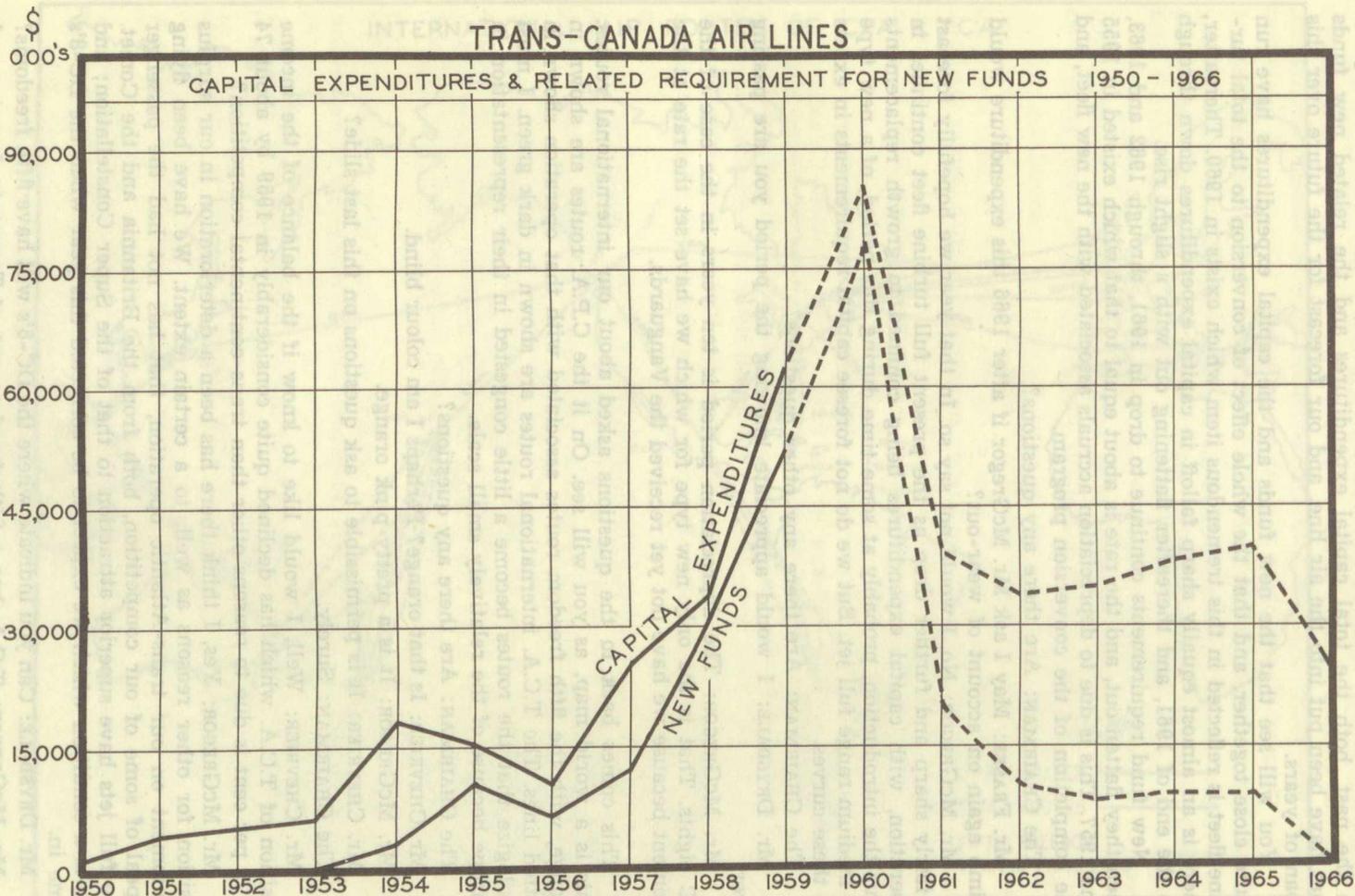
Mr. MCGREGOR: With respect to air transportation of those passengers, yes. We are actively investigating other possibilities and some of them appear practical, such as the use of railed facilities between airports and downtown areas, with checking in of tickets during the rail transportation.

Mr. DRYSDALE: But basically that is just from airport to airport?

Mr. MCGREGOR: Yes, that is our basic responsibility.

The CHAIRMAN: Any other questions on that slide?

Mr. MCGREGOR: Next slide, please.



Mr. McGREGOR: This slide shows capital expenditure actual up to 1959 and forecast through 1966. It shows what has been invested in the enterprise in the past, both the total capital expenditures and the related new funds that have been put into the air line, and our forecast for the future over this span of years.

You will see that the new funds and the capital expenditures have run quite close together, and that the whole effect of conversion to the total turbine fleet is reflected in this tremendous item which exists in 1960. Thereafter, there is an almost equally sharp falloff in capital expenditures down through to the end of 1961, and thereafter flattening out with a slight rise.

New fund requirements continue to drop in 1961, through 1962 and 1963, then they flatten out, and the rate is about equal to that which existed in 1955 and 1957. This is due to depreciation accruals associated with the new fleet, and the completion of the conversion program.

The CHAIRMAN: Are there any questions?

Mr. FRASER: May I ask Mr. McGregor if after 1966 this expenditure would climb again on account of wear-out?

Mr. McGREGOR: No, I would not say so. In that year we hopefully forecast a fairly sharp and further drop as the present full turbine fleet continues in operation, with capital expenditures being confined to growth replacements plus the introduction, probably at some time during this period, of a new type of medium range full jet. But we do not foresee capital requirements in excess of these curves.

The CHAIRMAN: Are there any other questions?

Mr. DRYSDALE: I would appreciate knowing the period you are passing over.

Mr. McGREGOR: The depreciation period is ten years in the case of the DC eights. That is the only new type for which we have set the rate at the moment because we have not yet received the Vikings.

This comes back to the questions asked about our international routes. This is a world map, as you will see. On it the C.P.A. routes are shown in orange, with the fifth freedom routes associated with that operation shown in dotted lines. The T.C.A. international routes are shown in dark green. I must apologize that the routes become a little congested in their representation in Europe because of the relatively small scale.

The CHAIRMAN: Are there any questions?

Mr. CHEVRIER: Is that orange? Perhaps I am colour blind.

Mr. McGREGOR: It is a pretty pink orange.

Mr. CHEVRIER: It is permissible to ask questions on this last slide?

The CHAIRMAN: Surely.

Mr. CHEVRIER: Well, I would like to know if the balance of the income position of T.C.A. which has declined quite considerably in 1959 by about 74 to 75 per cent is due to reasons other than trans-continental competition?

Mr. McGREGOR: Yes, I think there has been a deterioration in our surplus position for other reasons as well, to a certain extent. We have been flying equipment on our trans-Atlantic operation, that has not had the passenger appeal of some of our competition, both from the Britannia and the Comet. The full jets have superior attraction to that of the Super Constellation; and this is a condition which we expect to be corrected this year when the DC-8's come in.

Mr. DRYSDALE: Can you indicate where the DC-8's will have fifth freedoms?

Mr. McGREGOR: T.C.A. has a fifth freedom out of Tampa to Jamaica and to Nassau.

The CHAIRMAN: That is not shown there.

Mr. MCGREGOR: Yes, it is, but difficult to see.

Mr. DRYSDALE: Is there one to Vienna?

Mr. MCGREGOR: There is a fifth freedom between Dusseldorf and Vienna.

The CHAIRMAN: Are there any other questions?

Mr. DRYSDALE: Might we have a list of the C.P.A. freedoms for the record?

Mr. MCGREGOR: You can see from the map up there that it is to Hong Kong and to virtually all points that they touch in the Antipodes, and from Mexico City to all points that are served in South America. They also have a fifth freedom now from Madrid to Rome.

Mr. FISHER: Have you ever been interested, or has T.C.A. ever been interested in competing with C.P.A. in this western area, with these lines running out of Vancouver?

Mr. MCGREGOR: You mean on the Pacific?

Mr. FISHER: Yes.

Mr. MCGREGOR: No. They are already in competition with Qantas air lines, so a third carrier just would not make sense.

Mr. CHEVRIER: Are you interested in a fifth freedom from Paris to Rome with an all Canadian flight?

Mr. MCGREGOR: Yes, very much so. Because, as everyone knows, a price was paid for that fifth freedom in the form of the Montreal-Chicago route being granted to Air France. That price was paid by T.C.A. in the form of sharp competition. We cannot operate non-stop between Montreal and Chicago, and moreover we do not serve alcoholic refreshments on such a route.

Mr. CHEVRIER: There is competition from Air France and Lufthansa—and I understand there is one other European carrier whose name I forget at the moment.

Mr. MCGREGOR: Alitalia, I think, will have a route.

Mr. CHEVRIER: That operates directly non-stop Montreal to Chicago; does that affect the first competitive position and have a bearing on the budget position of T.C.A.?

Mr. MCGREGOR: It has an effect, and quite a sharp one. I do not think I could venture a guess as to the amount. But I have no doubt, from the volume of traffic carried by those two foreign carriers, that we would have had a greater surplus, had those carriers not had traffic rights between Montreal and Chicago.

(See Appendix "E")

The CHAIRMAN: Are there any other questions on this graph in connection with international air lines?

Mr. DRYSDALE: What was the date of the agreement that was completed with respect to Montreal and Paris?

Mr. MCGREGOR: The Canada-France bilateral agreement was dated August 1st, 1950.

Mr. DRYSDALE: There was no provision made at that time to insure a Paris-Rome route?

Mr. MCGREGOR: Yes; a condition of the French bilateral agreement was a fifth freedom between Paris and Rome. This, of course, could not be implemented until there was a bilateral between Canada and Italy.

Mr. CHEVRIER: What did Canada gain in exchange for Paris?

Mr. MCGREGOR: Montreal and Chicago.

Mr. CHEVRIER: It got Montreal to Paris?

Mr. MCGREGOR: We are not talking about the third and fourth freedoms.

Mr. CHEVRIER: No. I am talking about the original agreement between Canada and France.

Mr. MCGREGOR: It was straight reciprocity, Paris to Montreal, for both carriers.

Mr. BROOME: Can you describe the third, fourth and fifth freedoms?

Mr. MCGREGOR: Yes, I can, but I think if the committee would not like the slides to be on longer, we could improve the atmosphere here by drawing back the curtains, and turning on the lights.

The CHAIRMAN: Is that the last slide?

Mr. MCGREGOR: Yes, it is the last slide of this group.

The CHAIRMAN: We have twenty minutes left, have we not?

Mr. MCGREGOR: The report I have is that weather conditions have not improved as forecast at the airport, which is not surprising. Frankly, we will not know whether this flight can get in until it is overhead.

Mr. CHEVRIER: May I get back to the question I asked earlier when I was thought to be out of order, and perhaps rightly so. I was saying to Mr. McGregor that the percentage of useable space, or the passenger load factor as stated in the report, declined from 69.3 to 66.5; and of course that implies greater competition on trans-continental routes, and on the trans-Atlantic routes as well.

The question I feel impelled to ask because of that factor is this: what is the load factor on the trans-continental service, that is, for T.C.A., and can you tell us what it was for C.P.A.?

Mr. MCGREGOR: I could make a fairly good guess in the case of C.P.A.

Mr. CHEVRIER: I mean for services which are in competition with C.P.A. only?

Mr. MCGREGOR: Our trans-continental overall load factor was 66.3 per cent. This compares with 71.7 per cent in 1958. But it does not correctly answer your question, because this is our overall trans-continental load factor. Some of the trans-continental legs are under competition others are not.

Mr. CHEVRIER: So you cannot say actually what the load factor was?

Mr. MCGREGOR: We can give you the load factor by points, and dig them out as we go along.

Vancouver to Toronto was 55 per cent as compared to 72.3 per cent in 1958.

Vancouver to Winnipeg was 38.5 per cent as compared with 61.5 per cent.

Vancouver to Calgary to Winnipeg was 71.3 per cent, compared to 74.5 per cent; Calgary is not a point which is available to C.P.A.

Vancouver to Edmonton to Winnipeg was 67.7 per cent as against 73.6. But there again Edmonton does not have C.P.A. service.

Edmonton to Regina to Winnipeg was 67.8 per cent as against non-competition. But probably you do not want the non-competitive ones.

Mr. CHEVRIER: No, I do not want the non-competitive, just the competitive ones.

Mr. BROOME: Why does it show a drop in this sheet? There are certain non-competitive routes which show a drop?

Mr. MCGREGOR: I can give them to you if you want it.

Mr. CHEVRIER: Could we have them tabled as an appendix to our report?

Mr. MCGREGOR: I would be delighted to do so. (See Appendices "A" and "B")

Mr. CHEVRIER: May I ask what the position is on the trans-Atlantic service in the same field of load factors?

Mr. MCGREGOR: I might explain in connection with T.C.A. that as has been done in each of the previous years, it has planned for some drop in the load factor. In other words, it is planned to produce a capacity which would "trend" the load factor slightly downwards.

Mr. BROWNE (*Vancouver-Kingsway*): Are these charts as shown on the slides going to be reproduced in our minutes? Mr. Chevrier came in late this morning, so perhaps he did not hear about that point. We did have charts showing this load factor, did we not?

Mr. MCGREGOR: That is right, and I understand it is the intention of Hansard to reproduce the charts and they are available.

Mr. CHEVRIER: Is the answer to my question to be yes or no?

Mr. MCGREGOR: Not for the trans-Atlantic, but I will give you that now, if you like.

Mr. CHEVRIER: Very well.

Mr. MCGREGOR: In 1959, trans-Atlantic had a load factor on the ocean leg of 71.0 as against 73.3 in 1958.

Mr. CHEVRIER: May I follow that up with these three summer months when you operate about 12 trips on the trans-Atlantic service, 12 round-trip flights?

Mr. MCGREGOR: Eighteen a week there and back, during the traffic peak last summer.

Mr. CHEVRIER: I think they stated there were 700 seats available in each direction. (*See Appendix "C"*)

Mr. MCGREGOR: I think that would be a fair estimate.

Mr. CHEVRIER: Could you tell us what would be the effect on that position with the introduction of the new carrier, the new DC-8?

Mr. MCGREGOR: I think that the load factor will probably remain about the same.

Mr. CHEVRIER: Will there be any flights cancelled?

Mr. MCGREGOR: Yes, there will be fewer flights to the United Kingdom. The European flights will be served by Super Constellation aircraft, and only Canada to the British Isles flights will operate with the DC-8's.

Mr. CHEVRIER: Can you give the committee any idea of the total number of seats which will be available?

Mr. MCGREGOR: Yes, I could do that, but it would take a little time. Perhaps I might be permitted to give you the answer after.

Mr. CHEVRIER: Yes. And can you tell us what C.P.A. is doing with reference to that position? Are they going to introduce a carrier similar to yours, and what will the effect of it be, if they do so.

Mr. MCGREGOR: I am told that C.P.A. have ordered four identical aircraft to our DC-8's, and that they have an option on five additional ones. I expect, due to the time of ordering, they would receive those in the coming winter or spring of 1961. The effect will be to about double their capacity with respect to any operation now being carried on by a Britannia.

Mr. BROOME: Would they be operated on both trans-continental and trans-Atlantic services?

Mr. MCGREGOR: I do not know what C.P.A. has in mind in that regard.

Mr. BROOME: In regard to this same question, could a table be filed showing the increase in the number of seats made available by T.C.A. on its competitive routes?

Mr. MCGREGOR: Do you mean in 1959, as compared to 1958?

Mr. BROOME: Yes.

Mr. MCGREGOR: Yes. (See Appendix "D")

Mr. BROOME: My point is you have dropped your load factor to increase your service?

Mr. MCGREGOR: Yes. You remember that slide with the horizontal lines showed decreases in boarded passengers.

Mr. BROOME: About 22 per cent?

Mr. MCGREGOR: Yes.

Mr. CHEVRIER: What is the capacity of these planes you said C.P.A. are contemplating?

Mr. MCGREGOR: I do not know what configuration C.P.A. plan, but we are seating the aircraft in a manner that gives a capacity of 127 passengers.

Mr. CHEVRIER: Could we have the board report on air cargo operations of T.C.A. between Montreal, Chicago and Vancouver?

Mr. MCGREGOR: Yes, one cargo North Star five nights a week, both directions.

Mr. CHEVRIER: Capable of carrying how many tons?

Mr. MCGREGOR: I would have to look that up.

Mr. CHEVRIER: What has been the position following the application to the air transport board some three years ago, or so, and the granting of the license for the operation of this all air cargo movement? Has it worked out in accordance with the submission made to the board at that time?

Mr. MCGREGOR: Well, you will remember that C.P.A. was denied that application.

Mr. CHEVRIER: I am talking about T.C.A.

Mr. MCGREGOR: T.C.A. has always held the right to carry cargo on any of the routes over which it has a license, and has done so. The growth in cargo traffic has been very much as we have described it in that period. In percentage, it is roughly equated to the percentage growth in passengers.

There is a slide which, I am sorry to say, you missed, and in it we showed the percentage growth of each of the classes of carriage; that is, passengers, mail and cargo.

The CHAIRMAN: Are there any other questions?

Mr. MCGREGOR: If I may, Mr. Chairman, I would just like to answer Mr. Chevrier's question about the capacity. It is 8.6 tons on the North Star all-cargo aircraft.

Mr. CHEVRIER: Could I get some idea of the average movement that you make east-west on an all-cargo flight?

Mr. MCGREGOR: Yes, west to east it is negligible, except during the period that cut-flowers are moving from British Columbia. East to west there is substantial cargo movement.

Mr. CHEVRIER: What I am trying to get at is this: is there business for more than one carrier, in your opinion?

Mr. MCGREGOR: No, sir, I do not think, with the introduction of the Vanguard, there will be sufficient business even for one carrier if they had to operate, as we do at present, an all-cargo operation, because of this directional imbalance. We hope it is going to be solved very materially by the introduction of the Vanguard. It has a big cargo capacity and will be operating across the country five or six times a day.

Mr. CHEVRIER: Mr. Chairman, I would like to ask a question in a different field, and it is this: what has been the effect on T.C.A.'s operations of the prolongation of the B.O.A.C. operations to Toronto?

Mr. MCGREGOR: It has only been in effect since March 1 and it is, therefore, a little bit early to say. However, we have calculated the effect of that would be a gross revenue loss of about \$6 million.

Mr. CHEVRIER: Per year?

Mr. MCGREGOR: Yes, per year. It is a figure which will have a tendency to be cut in half by the pooling.

Mr. CHEVRIER: I see. I suppose that accounts for the pooling agreement between B.O.A.C. and T.C.A. on the trans-Atlantic flight?

Mr. MCGREGOR: Yes, it played its part.

Mr. CHEVRIER: Is it now in operation?

Mr. MCGREGOR: Yes, also as of March 1.

Mr. CHEVRIER: Could I ask a similar question with reference to the other air carriers—Lufthansa and Air France—operating directly from the continent to Montreal-Chicago non-stop, and its effect on the revenue position of T.C.A.?

Mr. MCGREGOR: We estimated that, Mr. Chevrier, but, as I say, it is difficult to say that because a passenger is carried on that non-stop operation he necessarily would have travelled on T.C.A. had that operation not existed. We have an estimated figure, but I must say it is no better than that. We can give you that, included in our report.

Mr. CHEVRIER: Yes.

Mr. MCGREGOR: Mr. Chairman, I just wanted to draw your attention to the fact there is a group of coloured slides still to be run through, whenever you want to.

Mr. DRYSDALE: Just one question, Mr. McGregor—

The CHAIRMAN: Do you wish to play the other slides now?

Mr. BROOME: Let us go through them now. Then we can draw the curtains.

Mr. DRYSDALE: I wonder if you could just outline very briefly this contract you have with the Post Office regarding the carrying of what, in effect, is first-class mail?

Mr. MCGREGOR: Yes.

Mr. DRYSDALE: Is this a long-term contract? Did you enter into it for a period of several years?

Mr. MCGREGOR: Yes, it is co-terminous with the Trans-Canada contract, which is the general contract between the government and the airline. It goes down in stages. When we were carrying 750,000 ton-miles a month we received a monthly payment of \$570,000. The rate there is 76 cents per ton-mile. That decreases as the volume goes up to one million ton-miles in the following stages: 76 cents, 73 cents with respect to 800,000 ton-miles, 69 cents for 850,000 ton-miles, and so on, to a bottom of 62 cents on one million ton-miles.

Mr. DRYSDALE: Is that subject to negotiation on a yearly basis?

Mr. MCGREGOR: No.

Mr. DRYSDALE: What year was that contract actually entered into?

Mr. MCGREGOR: It was recently amended in December 1956.

Mr. DRYSDALE: There has been no provision made for re-examination of the figures as set at that particular time?

Mr. MCGREGOR: Yes, it has been extended on at least one and, perhaps, two occasions as the total volume of mail exceeded the scale that was called for.

Mr. DRYSDALE: But there has been no upward revision of the rates since?

Mr. MCGREGOR: None. All the rates have steadily fallen as the volume has increased.

Mr. DRYSDALE: I gather that C.P.A. does not carry any mail at all.

Mr. MCGREGOR: Not with respect to transcontinental routes, but all sorts of mail on its international and remaining local routes it operates north from Edmonton.

Mr. DRYSDALE: Is there a contract on a similar basis?

Mr. MCGREGOR: No. They negotiate it in some cases, on a rate per aircraft mile, which is substantially more advantageous on the low traffic routes; and, in the case of international carriage, at agreed mail rates under IATA.

Mr. DRYSDALE: Are you happy with the present rates?

Mr. MCGREGOR: Naturally, being in the business, I would like to see them higher; but, on the other hand, I think it is very fair that the rate per ton-mile should decrease as the total volume increases.

Mr. DRYSDALE: But are you satisfied with the rates?

Mr. MCGREGOR: Yes, I think the answer is that we are.

Mr. DRYSDALE: So you have actually no complaints on your relatively steady volume of some \$10 million a year on your first-class mail?

Mr. MCGREGOR: No, basically we have not. The domestic mail revenue, however is \$6,900,000.

Mr. CHEVRIER: May I come back again to the question of direct flights from Montreal to Paris, because it is of particular interest to those of us who live in Montreal? Does Air France operate a greater number of services, Montreal to Paris, than does T.C.A.? Do you know?

Mr. MCGREGOR: I think they are fairly similar.

Mr. CHEVRIER: How many do you operate?

Mr. MCGREGOR: It varies between winter and summer; and it varies between one year and the next.

Mr. CHEVRIER: Well, do you operate a direct flight?

Mr. MCGREGOR: Yes, last summer there were 3 direct flights per week including one non-stop.

Mr. CHEVRIER: In the summertime?

Mr. MCGREGOR: Yes.

Mr. CHEVRIER: And in the wintertime?

Mr. MCGREGOR: One, with other services operating through London.

Mr. CHEVRIER: You think Air France operates about the same?

Mr. MCGREGOR: I think it is a little bit more than that.

Mr. CHEVRIER: Recently, you started a direct flight to Vienna, via Paris?

Mr. MCGREGOR: Yes.

Mr. CHEVRIER: That was within the last month or so?

Mr. MCGREGOR: It was last summer we started to operate it.

Mr. CHEVRIER: I am sorry. Is that a weekly flight?

Mr. MCGREGOR: Yes.

Mr. CHEVRIER: Do you consider that flight which goes on to Vienna a direct flight, Montreal to Paris?

Mr. MCGREGOR: Yes.

The CHAIRMAN: Any other questions before we see the other slides?

Mr. CHEVRIER: Could I ask a question about the financing? How do you do your financing? I see in your budget there is a substantial amount of money required. You get it from the C.N.R., but how?

Mr. MCGREGOR: We prepare a capital budget which is submitted to the minister, and it is eventually dealt with by this committee.

The same capital budget requirement for new funds is communicated to the C.N.R., and they include that amount of money in their annual Financing and Guarantee Act. If the annual Financing and Guarantee Act is approved, and our capital budget, then we draw down funds at the going rate of interest which the C.N.R. is paying to the government for those funds; and we reimburse the C.N.R. at that going rate.

Mr. CHEVRIER: What is the basis of the interest rate?

Mr. MCGREGOR: The average?

Mr. CHEVRIER: Yes.

Mr. MCGREGOR: I say that, because the advances have changed considerably over the years.

Mr. CHEVRIER: Yes.

Mr. MCGREGOR: 3.75 per cent.

Mr. CHEVRIER: Does the C.N. or the government make long-term advances, or are they advances subject to short-term?

Mr. MCGREGOR: There are some quite short-term advances; but all our financing is done directly from the C.N.R.

Mr. CHEVRIER: Thank you.

Mr. DRYSDALE: Do you ever expect to reach a stage where you are able to do your own financing? I understand it is only because the amounts of money borrowed were small that you did it through the C.N.R. But it was \$60 million last year and is \$60 million or \$70 million this year?

Mr. MCGREGOR: Yes.

Mr. DRYSDALE: Could you handle your own investments directly now?

Mr. MCGREGOR: Do you mean, float our own securities?

Mr. DRYSDALE: Yes?

Mr. MCGREGOR: We could, but it would be under government guarantee, and there does not seem to be any particular advantage to it. It duplicates the issuing cost, and it does not seem to have very much advantage.

Mr. BROOME: Your financing later on will be through your depreciation account?

Mr. MCGREGOR: A very much greater proportion of it.

Mr. CHEVRIER: Is there any difference in interest now between long- and short-term issues?

Mr. MCGREGOR: Not in recently floated issues, but this was traditionally the case prior to the substantially higher cost of money today.

The CHAIRMAN: We are ready for the slides?—Agreed.

Mr. MCGREGOR: This is a picture of one of the first Vickers Vanguard's to fly. It was taken in England and, therefore, carries the Vickers company's markings on it. This is a large turbo-prop aircraft, of course. The "double-bubble" fuselage I was speaking of is represented by that line under the shadow of the windows. That is the floor of the passenger compartment, and that whole structure down from there is for cargo. These are Rolls-Royce Tyne engines producing the equivalent of about 5,000 shaft horse power.

This is a picture of the ramp at Malton airport, with the A. V. Roe plant in the distance.

This is a picture of a Viscount ready to take on cargo at the airport.

This is some of the ramp equipment you heard me refer to earlier. The third aircraft there is a North Star, the fourth a Viscount; then another Viscount, another, and another coming in.

Mr. CHEVRIER: I see your North Stars are up for sale?

Mr. MCGREGOR: Yes.

Mr. CHEVRIER: When do you expect to get rid of them all?

Mr. MCGREGOR: We are trying to sell them as a fleet, complete with simulator, ground equipment and spare engines. These are the aircraft that some publication referred to recently as: "Anybody want to buy an airline?"

This is another picture of the ramp at Malton, taken much closer, showing the equipment. There you see a Viscount, a Viscount, a North Star and another Viscount.

This is a picture of the telephone answering office in Toronto where the reservations work is done.

These are conveyer belts transporting reservations messages from the teletype room in the far background.

This is the rotary table for local boarding reservations, and it rotates like a roulette wheel and allows all the operators to have access to the details of each flight.

This space availability board across the back of the room is extended here for trans-Atlantic flights. This allows any one of the operators on reservations for specific flights on a specific day to say, "Yes, there is a seat open"—or, "There is not," as the case may be.

This is a picture of a Super Constellation in its servicing dock. There are stands mounted on castors, and these are rolled up around the engines and under the nose of the aircraft and, out of view, the tail of the aircraft. These are used for maintenance checks after a specific number of hours.

This is a record board mapping all those things that must be done, inspected and looked at; and, in some cases, replaced after a given interval of flying.

This is a picture of the Winnipeg engine shop, devoted now primarily to the overhaul of Dart engines, which are the turbo-props used in the Viscount aircraft. This machine in the foreground is the balancing machine. The internal parts of a turbo-prop engine turn at about 14,000 revolutions per minute, and this machine is to test whether the shaft and turbine wheel are in perfect balance, both statically and dynamically.

An hon. MEMBER: Do you expect operations in Winnipeg to remain the same?

Mr. MCGREGOR: Yes, in respect to the Viscount and Dart engines.

This is another picture of the Winnipeg base.

These are Dart engines being reassembled after overhaul. They are mounted in frames which are like gimbals, that support the engine at approximately its point of balance, and the engine can be rotated to any position. This engine is upside down, and that is the propeller boss down there; and this is the reduction-gear housing. This is the compressor housing, and these are the combustion chambers. The second engine down the line is in the opposite position, and is having the reduction-gear housing lowered on to the main assembly of the engine; this is right end up, and so is the third one.

This is a picture of the instrument room in the engine test house at Winnipeg, and a Dart engine can be seen through the window on the test bed and running. These people are observing its performance. Every engine that is overhauled goes through this process, and these people are observing the production of power of the engine, its fuel consumption, its temperature, its oil consumption, and many other factors that are of extreme interest in determining the effectiveness of the overhaul.

This is a picture of part of the interior of the stores building at Winnipeg. You can see a Viscount vertical fin, a wing section, wing tips, and so on, and various small parts on shelves in the background.

This is a picture of the machine accounting centre in Winnipeg, which puts through about 10 million cards a year.

This is a picture of a flight simulator. This is what has grown out of the early days of the Link trainer. In this nose-end reproduction of an aircraft you can see the first officer's seat on the right-hand side.

Crews are trained for some time in this, just as though they were in flight; and the simulation of flight conditions is such that very shortly after they are in there the crew does not realize they are not airborne.

The flight path which would be flown by the aircraft is reproduced on these tables; and, in fact, simulated approaches under varying conditions to all airports across the system can be achieved.

This is a picture of the working parts of that simulator.

This is known as a mechanical type of simulator, and there are many moving parts here—shafts and cables of all kinds—which identically reproduce the effect on the controls and instruments of the simulator, that would occur with an aircraft in flight; for example, the simulated failure of an engine producing yaw, as happens in an aircraft, and the requirement for trim and rudder application, are required by the simulator.

This is a picture of our latest acquisition, the D.C. 8 simulator.

That is a crew being briefed prior to going on a simulated flight. I am glad to say the paint scheme of the D.C. 8 is not as reproduced there. The D.C. 8 simulator costs just over \$1 million.

This is the electronic "guts", if I may use the expression, of the D.C. 8 simulator. This being a larger and more complex aircraft the simulator interior is much simplified by the use of full electronics.

This is the de-briefing after the crew has been on a training flight in the simulator of the D.C. 8.

This is a stewardess-training class being given instruction in the wearing of the hat which, I gather, is a matter of some importance.

This is a picture taken in the passenger ticket office in Mount Royal Hotel, Montreal, which has been open about 1½ years now. The main point of interest is the supervisor who is operating what we call our "Quality Assurance" control chart. He is observing the accuracy of the information that is given to the prospective customer by the agent; and he is checking the tone of voice and that all possible requirements of the passenger are being met.

This is a picture of the prototype of the "Transactor" which will be used in the automatic reservations system we hope to put into service in 1961.

It is a rather interesting thing. This card is ruled off and on it are indicated the flight numbers and codes of all the points between which a passenger can travel on T.C.A.

As a passenger requests flight 23 between Toronto and Winnipeg the agent puts a mark on flight 23 and draws a line between Y Z and W G, which are codes for Toronto and Winnipeg. The card is slipped into this slot and makes contact against a platen which has hundreds of electronic terminals on it. The current flows through the lead pencil mark, and in two-tenths of a second there is a clunk and a half-moon is taken out of the edge of the card, saying "yes" to the flight requested or, failing that, a "yes" to the flight before or the flight following. The speed of operation will make a big improvement over the present method, and accuracy should be a great deal better.

This is a model of the new maintenance and overhaul base at Dorval. The arrow indicates the North direction.

This is the main overhaul hangar which has the biggest unsupported cantilever roof, I believe, in the whole of North America.

This is the main maintenance hangar, with the doors open, so an aircraft can move through it.

This is the main shop and stores at Dorval.

This is the engine test house.

This is the power house, this is the combustible stores, isolated, and this is the fuel farm.

This building houses the simulators, three of which will be in it. There will be a cafeteria above. This is for machine accounting and other office accommodation.

Mr. CHEVRIER: How much will it cost?

Mr. MCGREGOR: \$23 million.

Mr. CHEVRIER: When will it be completed?

Mr. MCGREGOR: It will cost \$23 million equipped, and \$20 million is the construction cost. Construction started in September, 1958. It is partially occupied now, and will be fully completed in May.

Mr. DRYSDALE: Was that erected primarily for the D.C. 8?

Mr. MCGREGOR: Yes, and for the Vanguard.

Mr. DRYSDALE: Could I ask this one point, Mr. McGregor: Canadian Pacific Airways will be bringing on the D.C. 8 fairly soon. You have your main maintenance base in Montreal. Are you planning anything in Vancouver? What cooperation, if any, is there between you and the C.P.A. at present, or will there be in the future, with regard to D.C. 8 maintenance?

Mr. MCGREGOR: There will be only a line maintenance base at Vancouver, as at Toronto now, and another at Halifax. There will be no overhaul work done other than at Dorval on either the Vanguard or the D.C. 8 aircraft, except in the event of some sort of an emergency.

The idea of not duplicating these facilities occurred to both airlines and negotiations are under way now having as their objective the over-haul service by T.C.A. on the C.P.A. D.C. 8's and their engines.

Mr. DRYSDALE: Do you know if there is any plan by C.P.A. to develop an overhaul base, for example, in Vancouver? Could their transcontinental frequency develop further?

Mr. MCGREGOR: No, I do not know of any such plan.

Mr. CHEVRIER: What area of land does this occupy?

Mr. MCGREGOR: 82 acres,

Regarding the luncheon plans I should announce, gentlemen, that the flight has not got into Ottawa and has gone to Toronto, I am very sorry to say.

This next slide shows the area of land at Dorval airport before construction started in the autumn of 1958.

This is the construction under way during the winter of 1958-59, and you can see some of the steel structure going up which houses the engine shops and storage.

This is the construction of the main anchor piers of the cantilever roof for the overhaul hangar, which is 850 feet long by 175 feet wide.

This is the construction further advanced on the stores and engine shop. You can get some idea of the area involved, I think, from the roof structure you see here.

Mr. CHEVRIER: What is the length of that hangar?

Mr. MCGREGOR: 850 feet inside; that is the overhaul hangar.

That is it with the doors up and the roof on, and in a stage of construction that was reached about mid-summer, if I remember rightly.

Mr. CHEVRIER: How does this compare with similar construction elsewhere?

Mr. MCGREGOR: There is no such base in existence. This was one which was designed entirely for servicing, maintenance and overhaul of turbine-powered aircraft and their engines. I do not think there is anything that can be so described elsewhere at the moment.

This is a picture taken during this past winter, and you can see the interesting construction of that hangar roof which is, as I say, a full cantilever.

This picture of the buildings in the foreground—which you will relate to the model you saw—was taken from about the same angle.

This is the simulator building and this is the machine accounting and office building, to give them their primary names.

The engine test house roof is just shown in this picture.

This is the engine test house which is now occupied; and that is, I think, the first delivery of the Conway pure jet engines about to be lowered into this cradle for a test run. The engine test house came into operation in late January of this year. Next slide, please.

This is another picture of the Conway engine, with the plug disc taken out of the intake. You can see the first stage of guide vanes and the first stage of compressor vanes, looking into the front of the engine. May we have the next slide?

This is a picture of the DC-8 on the ramp, and you can get some idea of the length of fuselage and the sweep back of the wings, which is 35°. No. 3 engine is showing—No. 4 engine is out of the picture—and you can see No. 1 and No. 2 engines.

You can see the noise suppressors at the back end of the engines. You will see a track just along there at the after end of the engine and the after end of the cowlings slides back on that track as an additional noise suppressor. The device to provide reverse thrust on landing is in this unit. May we have the next slide, please?

This is another picture, taken from a different angle, of the DC-8 at the front of the new hangar. The next slide, please.

This is a picture of the interior of the cockpit of a DC-8 being taxied out at Dorval during the period of flying training. I think you will agree that it is a pretty clean cockpit for an aircraft of that size. May we have the next slide?

This is a picture of a DC-8 in flight. Again you can see the noise suppressors run forward on the tracks as they are in flight. You can also see the quite clean underbody of the aircraft. I am speaking aerodynamically, of course; and you can see all four engines in view at one time. It is not easy to get that in an aircraft picture. There you can see the size of the fin and rudder assembly.

Mr. DRYSDALE: Are noise suppressors standard equipment?

Mr. MCGREGOR: Yes. May we have the next slide, please.

This is a picture of the interior of the DC-8, showing the three-unit seats. There are some interesting points in this picture in regard to the lighting. I think cabin lighting for reading has always been a fault in airplanes, and in this case the light is built into the back of the seat and is always properly focussed on what a person may have in front of him. It also affects only that individual passenger.

Mr. FRASER: Do you know how wide the seats are in that aircraft?

Mr. MCGREGOR: I can get it for you.

Mr. FRASER: What I am getting at is, are they as wide as the North Star or the Viscount?

Mr. MCGREGOR: They are wider than the five-abreast seating in the Super Constellation; they are about the same as the four-abreast seating in the North Star, and a little bit narrower than the four-abreast seating in the Viscount.

Mr. CHEVRIER: Are there two classes of passengers?

Mr. MCGREGOR: Yes; four abreast in the forward part and six-abreast in the after part.

Mr. CHOWN: Do those arm rests go up and down?

Mr. MCGREGOR: They can be taken out. This one is fixed. The seat, of course, is reclining and those two arm rests are removable.

The CHAIRMAN: It can be used as a sleeper!

Mr. MCGREGOR: May we have the next slide, please.

This is a picture of the DC-8 in flight in the going away position. It is a fairly good study of the interesting treatment of the horizontal stabilizer. Again, the four engines are in view; and, again, these tracks are clearly visible. May we have the next slide?

This is the last slide, by the way. This is a picture taken of the DC-8 coming back to its hangar after training flying. It was taken at Dorval, of course, about three weeks ago. Thank you very much, gentlemen.

Mr. CHOWN: Mr. McGregor, one of the things that has been a source of alarm to the travelling public has been the bomb scares, or suspicions of bombs, and the tragedies as a result of bombs being planted in airplanes.

I think it could have a far-reaching effect on your revenue, and so on, unless the public is assured very soon that you have vigorous investigations going on into some sort of preventive measures that can rule out this possibility and bomb-proof planes, as far as the travelling public is concerned.

Following that, I was going to ask if, as a result of these tragedies that occurred in the United States—and one, as you recall, which occurred in Canada, which was proven to be the result of a bomb—you could tell us what has been done, as far as your company is concerned, and by the industry as a whole.

Mr. MCGREGOR: As a result of the Canadian case of several years ago, that you referred to, a very exhaustive investigation was undertaken by T.C.A., in collaboration with two Canadian universities, and I think it is correct to say that a lot of interesting information and some ideas were developed as a result of that.

Perhaps this is not the best thing to touch upon strongly. I think the most satisfactory thing—if any satisfaction can be taken out of the situation as it occurred—is the fact that the main incentive has always been from an insurance angle. There has been no case, that we know of, that has been related to a purely crackpot desire to damage an aircraft, without financial gain.

Similarly, there has been no case on record, that I know of, where there has been an insurance pay-off in a case where there has been a bombing; that is, to the intended advantage of the person instituting the accident. This, I think, is going to have a quite exemplary effect, particularly when, as in the Canadian case, it resulted in two hangings, rather than a pay-off of an insurance policy.

The physical problems associated with examination are quite difficult. It does not only effect cargo, but it would also involve hand baggage—in fact, the contents of the pockets—

Mr. CHEVRIER: On the point that you mentioned just a moment ago: there is not only the question of collecting insurance; there is sometimes also the question of a bomb being planted to get rid of somebody else, as I think was also the case in the Guay case. I do not think it was only a question of collecting insurance, but it was also a question of getting rid of somebody else.

Does that not come into the picture as well?

Mr. MCGREGOR: Yes; but I still think my statement is correct, that there has been a strong insurance incentive in each of the cases that have been proved to be the result of bombing.

Mr. CHEVRIER: What is being done elsewhere—in the United States, for instance, or in the United Kingdom?

Mr. MCGREGOR: In the way of—

Mr. CHEVRIER: Protection.

Mr. MCGREGOR: Preventive measures?

Mr. CHEVRIER: Yes— safety to the public.

Mr. MCGREGOR: I do not know of any case of it having been done, but the examination of baggage can be installed. But it is not, by any manner or means, satisfactory. Clockwork, for instance, is not an essential of a time-bomb: there is acid eating through metal diaphragms, and so on. The fact is, that on the basis of X-ray examinations on either cargo or baggage, anything opaque would be suspect.

Mr. FISHER: Why have you never considered selling insurance policies right along with your tickets, or having insurance built right into your tickets?

Mr. MCGREGOR: There are several reasons for that, Mr. Fisher. We did, at one time, sell insurance policies separately, before these automatic vending machines came in, and—more recently still—insurance counters at airports. Our activity in the matter of selling insurance was strongly objected to by the people who made their living at it. Also, it involves licensing of the company as an insurance agency, and many other things.

Mr. FISHER: Do you mean that the reason why you have to get it separately is because we are leaving an avenue of choice open to the customer in choosing a company?

Mr. MCGREGOR: Not so much that because the avenue of choice is fairly limited in the case of vending machines. But we were setting up an insurance vending agency and, as I say, the industry whose business it was to do that took fairly strong exception to it.

I do not know of any case where an air line is selling insurance as a component of the ticket.

Mr. BADANAI: What are the benefits from the sale of insurance policies from vending machines? Does T.C.A. get any benefit from that?

Mr. MCGREGOR: No; the concession to instal the machine is granted by the operator of the terminal building, which in most cases is the Department of Transport.

Mr. MCPHILLIPS: With regard to safety in the air—while we are on this subject—the American air lines, for some reason, have got legislation passed putting a huge penalty on any one who goes aboard an aircraft with a pocket flask. We do not have that in Canada, do we?

Mr. MCGREGOR: No, and I did not know that such a penalty existed in the United States.

Mr. MCPHILLIPS: Yes, just recently. You do not propose asking for legislation on that?

Mr. MCGREGOR: No.

Mr. MCPHILLIPS: Of course, it might have an effect on sales at the bar, too.

The CHAIRMAN: Gentlemen, it is your wish that we go to 12:30, is it?

Agreed.

Mr. BROOME: I would like to ask a question in connection with approach controls. There has been quite a battle between, I believe it is the Decca system—

Mr. MCGREGOR: Yes.

Mr. BROOME: —and another system.

Mr. MCGREGOR: V.O.R.

Mr. BROOME: Would you mind commenting on that, and perhaps giving us the position of T.C.A. in that regard, because it is the air line carriers who have to say which system should be adopted, is it not?

Mr. MCGREGOR: Air lines certainly express very strong views on this—some of them opposing views. Air lines are greatly interested because of the very substantial investment to which they are committed in the adoption of one plan or the other.

As you say, this struggle has been going on for some time. Historically, the V.O.R. has been in use now for years and a great deal has been spent on V.O.R. installations, both on the ground and in the air.

The great advantage of V.O.R. is that it is on a high-frequency basis, and is therefore not subject to normal interference of radio communications.

Decca is a pictorial representation of the actual position of the aircraft over the ground, or over the water, with a travelling pen running on a chart. A disadvantage is that it is not on a high-frequency basis and therefore—to use the expression that was used to me by a pilot who was flying an aircraft equipped with the installation which was in Europe—“It is excellent when you do not need it; when the weather is good. But when the weather is bad, it does not work”. That was, perhaps, a slightly over-simplified description.

Decca does have the advantage, however, of positioning the aircraft positively along any route that it may be flying. Until recently this has not been the case with V.O.R. There is now an added component to the V.O.R. installation, which is under test, called distance-measurement, which places the aircraft, not only on its route but also the distance it is along that route.

This information is quite easily obtained, incidentally, in the air by taking cross-bearings with V.O.R., but that is slightly more cumbersome than the arrangement that will be in force.

I think that the Canadian position, with respect to the argument in ICAO was to ascertain from the vote.

Mr. FISHER: Landing fees here, I gather, are on a scale several times what you have in the United States, but they make only a piffling contribution to the cost of the services provided. Can you see the possibility of any rise in the higher Canadian landing fees; and how does it fit into your operating expense picture?

Mr. MCGREGOR: The Canadian landing fees are on a much higher scale than most other countries. We pay, as a landing fee, \$5.40 domestic for a DC-3; \$20 for a North Star, domestically; \$28 for a North Star on a trans-border service, and \$106.50 on an overseas flight. For a Constellation we pay \$41.40 on a domestic flight; \$48.30 on a trans-border flight, and \$201.50 for overseas.

Viscounts are \$15 across the board. The total payment for landing fees including airport assessments on fuel and oil by T.C.A. in 1959 was \$3,666,912.

Mr. FISHER: You paid over a quarter, then, of the revenues that went to D.O.T. from this source?

Mr. MCGREGOR: No, that was the system figure which I gave you—paid to all countries. The payment to D.O.T. was \$2,267,918.

I can give you the similar scales for the United States, by aircraft, if that is of any interest.

Mr. FISHER: Can the air lines afford to pay more in this regard—not from the point of view of T.C.A., but the Department of Transport?

Mr. MCGREGOR: We took in \$130 odd million in 1959, and we ended up with a surplus of \$152,000, so I think my answer to that would be “no”.

Mr. FISHER: Regarding the scale, or the type of service being provided and projected by D.O.T. for the movement for your aircraft, both on the ground and in the air—are you completely satisfied with that, especially in safety terms?

Mr. MCGREGOR: In safety terms, yes. I think that the program with respect to runway approach aids and navigational aids is well abreast of the immediate situation. The minister will forgive me for saying that I do not say the same thing about terminal buildings.

Mr. DRYSDALE: I do not know if this is perhaps a fair question, but last year in the committee you made a prediction regarding your loss of profits in connection with your competition with Canadian Pacific Air Lines. At page 21 of that report you said:

I have forecast the effect on T.C.A., with respect to the period May 4 to December 31, 1958, as being a diversion of T.C.A. revenue in the amount of \$3,762,000. That, with respect to a full year of operation, would go up to \$5,150,000.

A year later, how have your prognostications tied in with the forecast situation?

Mr. MCGREGOR: I do not want to sound boastful, but, surprisingly accurately. The figure of the diversion of revenue that T.C.A. could otherwise expect was \$3,490,000. That is with respect to operations only from May 4 to the end of the year. Our 1960 forecast—if you would like to be in the position of putting me on a similar spot next year—is \$4,596,000.

Mr. DRYSDALE: I have one other question. When Mr. Gordon was here we had a rather interesting discussion as to the function of directors in the C.N.R. I notice that on T.C.A. you have nine directors, four of whom are appointed by the Governor in Council and five are from the C.N.R., elected by the shareholders.

I was interested as to how often its shareholders meet; what directions they give you with regard to policy, and what effect does it have—having five out of nine directors on the C.N.R., which is—as has been pointed out—in direct competition with T.C.A.

Mr. MCGREGOR: Well, I think you used the term “shareholders” when you meant “directors”.

Mr. DRYSDALE: They are elected by the shareholders. The C.N.R. is the shareholder.

Mr. MCGREGOR: The only shareholder.

In answer to the multiple question, I would say that the board is scheduled to meet, on the average, eleven times a year. There is a regular monthly meeting called, and the month of August is usually eliminated. On one or two occasions, having had a very light agenda, we have taken a mail vote on an item and dropped down to ten or less meetings in a year.

However, the board has functioned entirely satisfactorily. I do not remember a case having arisen where a decision by the board as a result of a recommendation from management was considered in the light of it having a possible deterrent effect on railway revenues.

Five Directors are appointed by the C.N.R., and this figure includes Mr. Donald Gordon. They put on their air line hats, so to speak, when they are

considering air line matters at a meeting. There has been no conflict between directors appointed by order in council, of which I am one, and the directors appointed by the shareholder, the C.N.R.

Mr. CHOWN: I move the adoption of the report.

Mr. FRASER: I second the motion.

The CHAIRMAN: It has been moved by Mr. Chown and seconded by Mr. Fraser that we adopt the T.C.A. report, and that the report be accepted. All in favour? Contrary, if any?

Motion agreed to.

The CHAIRMAN: It has been moved by Mr. Pascoe and seconded by Mr. Grills that the T.C.A. capital budget for 1960 be adopted. All in favour? Contrary, if any?

Motion agreed to.

THE YEAR IN BRIEF

| | 1959 | 1958 | % Change |
|---|---------------|---------------|-------------|
| Revenues | \$134,678,748 | \$120,554,769 | +12% |
| Net Income | \$ 152,554 | \$ 547,429 | -72% |
| Seat Miles Made | | | |
| Available (000's) | 2,749,228 | 2,344,733 | +17% |
| Seat Miles Occupied (000's) | 1,828,902 | 1,625,689 | +13% |
| Ton Miles Made | | | |
| Available (000's) | 356,732 | 310,388 | +15% |
| Ton Miles Used (000's) | 208,208 | 185,516 | +12% |
| Average Return per Passenger Mile | 6.31¢ | 6.28¢ | |
| Average Return per Revenue Ton Mile | 64.12¢ | 64.39¢ | |

ANNUAL REPORT

Montreal, February 29, 1960.

To the Honourable,
The Minister of Transport, Ottawa,

Sir:

The Board of Directors submit the Annual Report of the Trans-Canada Air Lines system for the calendar year 1959.

Financial

Operations in 1959 resulted in a net income of \$152,554. While 1959 rates of revenue yield were similar to those of 1958, load factors were sharply lower. This downward influence upon net income was offset by improvement in the level of unit operating costs and a 12% growth in traffic volume.

Total revenues rose by 12% to \$134,678,748. Passenger revenues represented 85% of the total, and increased by 13% over 1958.

The general pattern of passenger fares was stable in 1959, although the yield to the Company on Atlantic services was reduced by withdrawal of Tourist Class service in favour of additional Economy service. A further rise in United States airline tariffs late in 1958 brought increases in trans-border fares, and these have contributed to an increase in the North American yield to 6.31¢ from 6.23¢ per passenger mile. The percentage of usable seats occupied or passenger load factor declined from 69.3% to 66.5%. The advent of a second transcontinental carrier in May, 1959 and the competitive pressure of turbine equipment on the North Atlantic were powerful downward influences on load factor, and thus on net income.

Mail revenues increased by only 1%. While benefiting from a growth in volume, they were limited by the declining return per ton mile under the terms of the present Canadian mail contract. Air express and freight revenues advanced by 11%.

Operating expenses increased 12% to \$132,265,271, but a marked improvement has been shown in these expenses when related to the 15% increase in available ton miles produced. Modern aircraft, some improvement in fuel prices, the lengthening overhaul life of the Dart engine, and the advantages of route density which came with growing volume, all contributed to the improved unit cost position.

Increasing productivity of modern aircraft, well developed personnel and efficient performance by staff enabled the additional capacity to be provided with an increase of only 3.4% in the average number of employees. However, a 5.4% rise in the average annual wage resulted in payroll expense amounting to \$55,177,780, or 9.2% over 1958.

During the year \$62,600,000 was invested in property and equipment. Of this amount \$39,600,000 represents payments for aircraft. Outlays of \$17,900,000 were made on the new overhaul base at Dorval.

Financial Review

Operating results for 1959 compared with those of 1958 are as follows:—

| | 1959 | 1958 | Change |
|----------------------------------|--------------|--------------|---------------|
| Income from Operations | \$14,558,559 | \$12,425,035 | +\$ 2,133,524 |
| Provision for Depreciation . . | 12,145,082 | 9,911,049 | + 2,234,033 |
| | <hr/> | <hr/> | |
| Non-Operating Income—Net | \$ 2,413,477 | \$ 2,513,986 | —\$ 100,509 |
| | 727,495 | 529,029 | + 198,466 |
| | <hr/> | <hr/> | |
| Income before Interest | | | |
| Expense | \$ 3,140,972 | \$ 3,043,015 | +\$ 97,957 |
| Interest on Capital Invested . . | 2,988,418 | 2,495,586 | + 492,832 |
| | <hr/> | <hr/> | |
| Net Income | \$ 152,554 | \$ 547,429 | —\$ 394,875 |

Service and Traffic Growth

TCA expanded its passenger carrying capacity by 17% in 1959, making available two and three quarter billion seat miles of air transportation. Passenger traffic increased by 13%. It is of interest that in 1959 TCA carried more passengers than in the first 13 years of the Company's existence.

The planned expansion of capacity was achieved by greater flight frequency and the use of additional aircraft. Transcontinental service increased to 12 daily round-trip flights during the summer months, representing 700 available seats in each direction. On the North Atlantic as many as 18 flights were operated weekly to the United Kingdom and Continental points. A new non-stop Viscount service was inaugurated between Regina and Edmonton. In May TCA began direct airline service between Canada and Austria with a weekly flight to Vienna. Service to Antigua in the West Indies, which had previously been planned on a winter basis only, proved popular and was continued throughout the summer. Late in the year Viscount operations were extended to Tampa, giving direct service with turbine-powered aircraft for the first time between Canada and Florida.

The airline continued to provide capacity for the carriage of air cargo and air express in excess of the traffic offering and endeavoured, through an active promotional campaign, to stimulate this form of load which has, in the Company's view, great potential. A scheduled transcontinental service was operated with all-cargo aircraft, each capable of carrying nine tons of commodities and other accommodation for goods was offered on all TCA operations. Canadian shippers enjoyed a high standard of service, being assured next-day delivery to cities within a 1,500-mile radius and second-day delivery to points beyond. Concentration of Canadian population and industry in Eastern Canada continued, however, to produce a serious lack of balance in directional traffic, the preponderance of air shipments being from East to West. Trans-Atlantic commodity traffic was again heavy, with TCA carrying the major share between Canada and Europe.

In providing general air carriage for First Class mail in Canada, TCA, in cooperation with the Canadian Post Office Department, again contributed to one of the world's most expeditious mail delivery systems. Priority accommodation was given mail on all flights and it is difficult to over-estimate the value of this service to Canadian business and social life. Under the terms of the contract with the postal authorities, TCA's remuneration per unit of mail carried continued to decrease as the volume of this traffic again rose. This historical pattern is illustrated on page 8.

TCA's services were supported by an energetic sales programme that incorporated advertising, direct mail promotion and personal solicitation. Various awards were won by TCA for the quality of its efforts in this very important field. A new convenience to the public was introduced in the form of a joint TCA/CNR credit card providing credit facilities for persons requiring transportation, hotel or rent-a-car services from the two organizations.

There was no major change in the TCA fare structure as Canadian airline fares continued to withstand the general upward trend of prices. Over the years the Company has consistently returned its realized and anticipated net income to the public in the form of fare reductions and will continue to do so whenever it is economically feasible. The diagram on page 8 shows the relationship between TCA fares and the consumer price index during the past decade.

At the close of the year, TCA routes stretched 30,308 miles within North America and to the British Isles, continental Europe and the Caribbean, with 59 communities being directly served. It is no small achievement that this major public utility has grown in 22 years from a route of 122 miles served by a single aircraft.

It should be mentioned that TCA operates to a large number of communities of relatively small population that would not normally be served by an enterprise concerned solely with profit potential.

Equipment and Facilities

Four more Viscounts and another Super Constellation were acquired during 1959. At year end the fleet consisted of 13 Super Constellations, 49 Viscounts, 21 North Stars and 9 DC-3s, a total of 92 aircraft. One Viscount was damaged beyond economical repair while landing at Toronto.

Installation of weather radar was completed on all Super Constellation and Viscount aircraft.

The Company continued its high standard of aircraft engineering, maintenance and overhaul with a staff of skilled and well equipped technical personnel. Viscounts and DC-3s were maintained at the Winnipeg overhaul base, Super Constellations and North Stars at Montreal. The efficiency of the year's operations is illustrated by the 97.9% completion of all scheduled aircraft mileage.

The new maintenance and overhaul base for DC-8 and Vanguard aircraft neared completion at Montreal. This will be the first facility of its kind designed solely for turbine-powered aircraft. Its buildings cover 18 acres on an 84-acre site. Test house equipment has been provided for the turbine engines that will power the new aircraft.

At Vancouver surveys began for a smaller base designed principally for line maintenance and overhaul of turbine aircraft.

The Company's well equipped offices, shops and hangars were carefully maintained and expanded as necessary to ensure proper standards of service.

The imminence of large new aircraft and the growing volume of air transportation intensified the Company's concern for airport terminal construction and adequate runway and navigational installations. Close contact was maintained with the Department of Transport so that its continuing programme of airport improvements might have the advantage of the point of view of the operating airlines.

Board of Directors

Commander C. P. Edwards and Mr. W. J. Parker retired from the TCA Board of Directors, the former after 22 years of valued service, having been one of the original TCA Board members. New appointments in 1959 were Mr. W. G. Stewart, Q.C. of Moncton and A/V/M C. M. McEwen of Toronto.

Personnel

At the close of 1959, TCA's staff numbered 10,452.

High employment standards were enforced and a continuing training programme maintained throughout the organization. This was particularly true of the technical departments where every precaution was taken to ensure that staff were kept abreast of the rapid technological changes that are influencing air transportation. The majority of all TCA employees were engaged directly or indirectly in the care of aircraft, the reliability of operations being the paramount consideration.

Since its incorporation 22 years ago, the Company has enjoyed excellent industrial relations with its staff. This continued to be the case in 1959, with all negotiations with organized labour reaching mutually satisfactory settlement.

Planning

Throughout 1959 TCA was concerned not only with the immediate operation of the airline but also with the far-reaching preparations necessary for the introduction of advanced types of aircraft in 1960. The current year, in which the Company will rapidly continue its transition to an all-turbine-powered fleet, will be the most challenging and demanding in its history. The new equipment, much larger and faster than anything hitherto employed, will transform the whole scale of Canadian air transportation. Present trans-continental and trans-Atlantic flight times will be cut in half by jet aircraft and the entire tempo of airline operations must be adjusted accordingly, with far reaching modifications to previous practices and procedures.

The first of the 1960 fleet of DC-8 jetliners has been delivered. These 550-m.p.h., 127-passenger aircraft are planned to begin a daily transcontinental service between Montreal, Toronto and Vancouver on April 1 and a daily trans-Atlantic service on June 1. Later, a second transcontinental flight, including a Winnipeg stop, will be added. These aircraft will fly from Toronto to Vancouver non-stop in 4 hours, 40 minutes and from Montreal to London in 6 hours, 5 minutes. Quiet and almost vibration-free, they will be the most comfortable aircraft ever offered to the Canadian public.

By fall the first of twenty Vickers Vikings will join the fleet and be placed in limited transcontinental service, prior to their general application to the Company's medium-range routes in 1961. These are the most modern of the highly successful propeller-driven type of turbine powered aircraft. The Vikings, manufactured by the same firm that produced the Viscount, will carry 96 passengers at 420 m.p.h. and will permit retirement of the last of TCA's piston-powered equipment. This conversion programme, the culmination of years of planning, will maintain TCA's reputation as one of the most technically advanced airlines in the world.

The DC-8s, Vikings and Viscounts that will comprise the future fleet will be powered by Conway, Tyne and Dart engines respectively, all Rolls-Royce products. TCA's experience with this engine manufacturer has been eminently satisfactory.

Personnel in the operating departments have been intensively trained in the techniques required by the new aircraft; supporting ground equipment has been acquired and maintenance and overhaul facilities constructed.

Anticipating the impact upon airline reservations procedures of the new speed and scale of air transportation, TCA, several years ago, undertook, in conjunction with Canadian electronic manufacturers, the design of an electronic and fully automatic reservations system that would meet these conditions. An order was placed for this equipment in 1959. When it becomes operative in 1961, it will ensure almost instantaneous response to reservations requests and will reduce possibilities of error to an absolute minimum. It will be the most modern such system employed by the world's airlines.

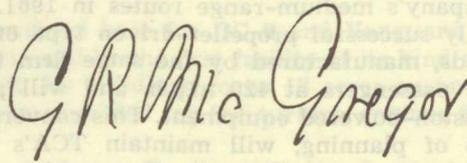
No major route expansion is anticipated in 1960, although the Company has expressed to the Canadian Air Transport Board its interest in a number of international services whose implementation must rest upon the satisfactory completion of bilateral negotiations between governments. Authority has been obtained for the extension of the present Halifax-Boston route to New York, but without local traffic rights between the latter two points. This service will commence this year. Also, TCA will inaugurate trans-Atlantic service from Halifax to the United Kingdom on an initial frequency of two flights weekly, commencing April 2. This, also, will be of special significance to the Atlantic provinces.

The very substantial expenditures associated with the acquisition and introduction of large modern aircraft will have a heavy impact upon the Company's financial results in 1960. These, however, are essential investments in the future of efficient Canadian air transportation. Large turbine-powered airliners will not only improve quality of service, but operate at a lower unit cost than present equipment and possess strong economic potential if well utilized. It is, of course, necessary that sufficient traffic be available to the airline to ensure full realization of that potential. TCA will do everything in its power to attract the required volume of traffic. The new services will be supported by an intensive sales effort and TCA has already announced its intention of avoiding fare differentials for jet flights in the interests of making this advanced form of transportation available to the widest possible segment of the population.

As in the past, the Company, in future years, will adhere to its policy of rigorous cost control and will endeavour, through the application of new work methods and advanced equipment, to achieve further operating economies. The provision of an adequate capacity of reliable air transportation at the lowest fares consistent with economic reality will continue to be TCA's basic objective.

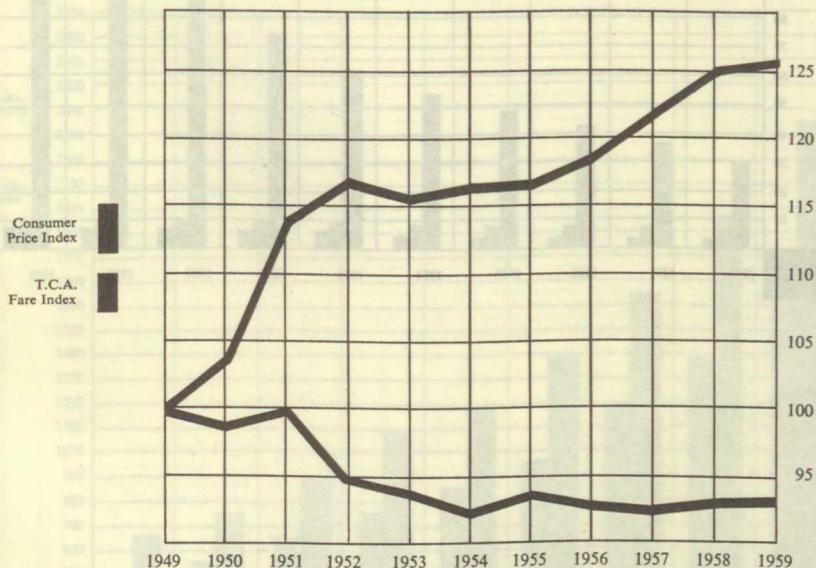
Throughout 1959 the Company's staff performed diligently and with skill in the public service and the Board of Directors take this opportunity of expressing their appreciation.

For the Directors,

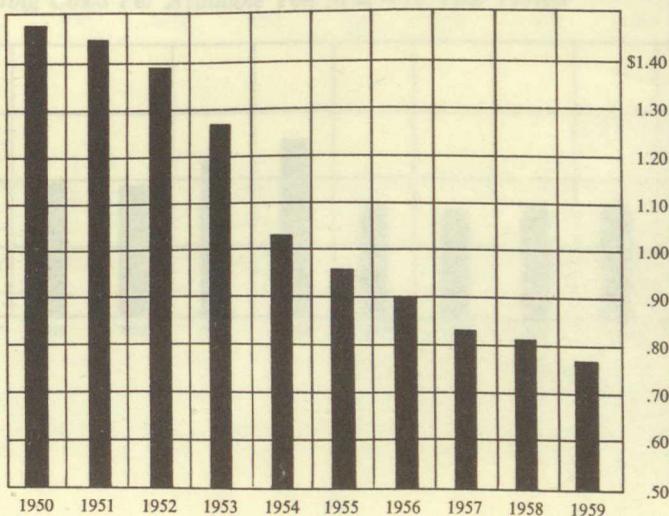


President.

Index of TCA Fares vs Consumer Price Index
Year 1949=100

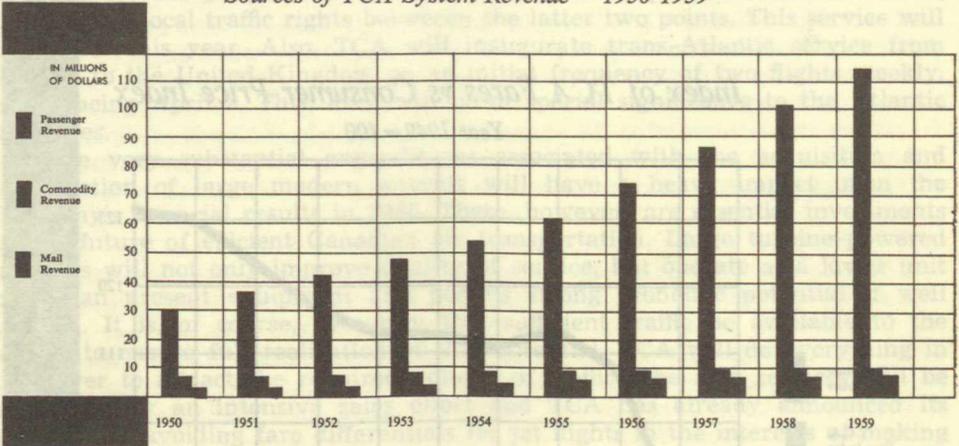


*Mail Pay
Per Mail
Ton Mile—
North American*

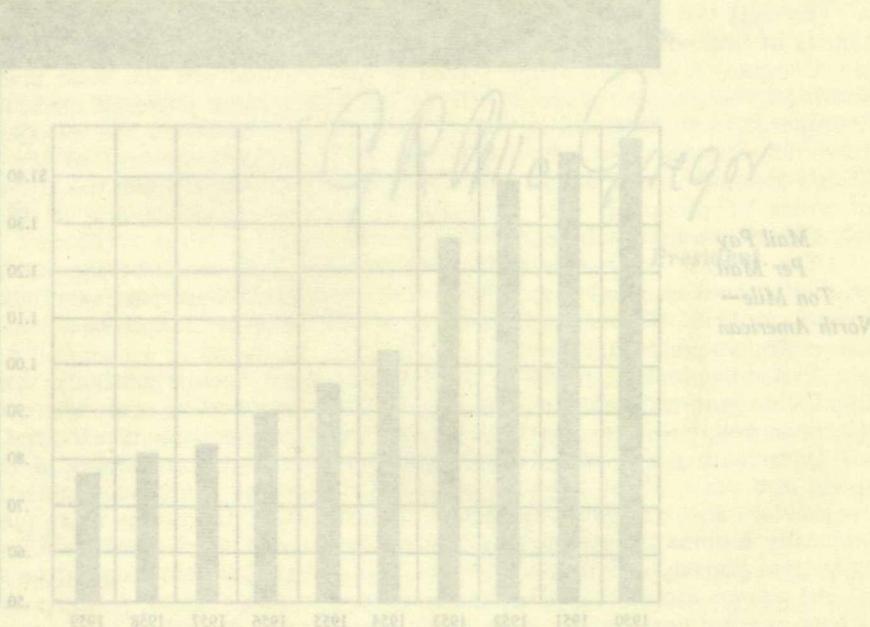


No major route expansion is anticipated in 1960, although the Company has expressed to the Canadian Air Transport Board its interest in a number of international services whose implementation must rest upon the satisfactory conclusion of bilateral negotiations between governments. Authority has been granted for the extension of TCA's routes to New York, London, and Paris. This service will be inaugurated in the latter two points. This service will be inaugurated in the latter two points. This service will be inaugurated in the latter two points.

Sources of TCA System Revenue 1950-1959



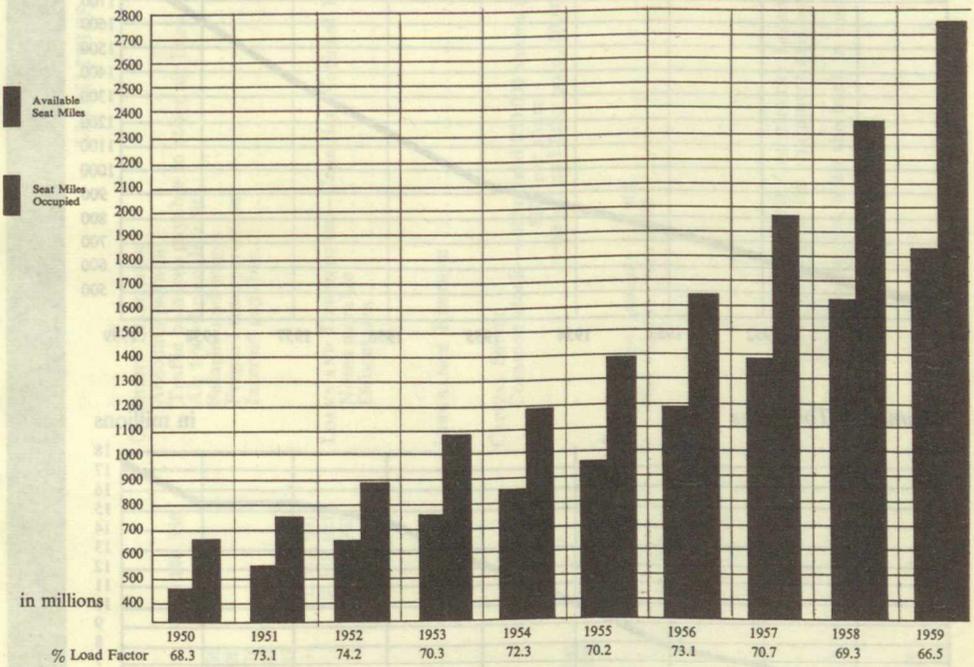
In the past, the Company, in future years will share to its policy of expansion and will continue through the application of new methods and advanced equipment to achieve increasing economies. Provision of an adequate capacity of reliable air transportation at the lowest possible cost will continue to be TCA's basic policy. Throughout 1959 the Company has continued diligently and with skill to provide the highest quality of service and the opportunity of increasing their appreciation.



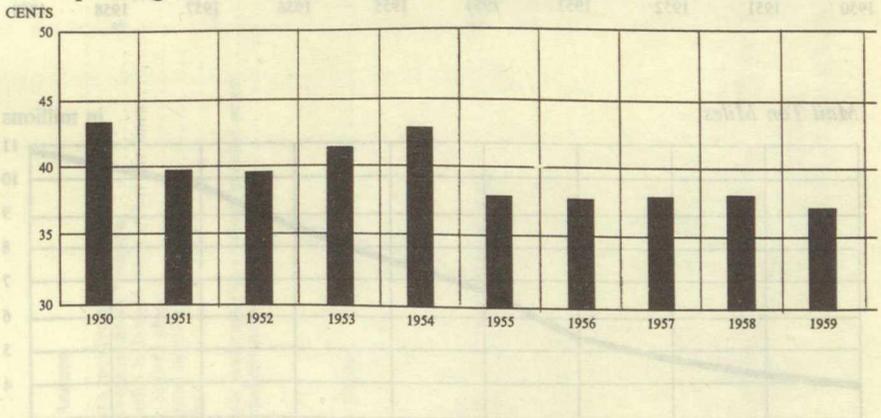
C.R. McGregor

Mail Pay
Per Mail
Ton Mile
North American

Seat Miles Made Available & Seat Miles Occupied 1950-1959



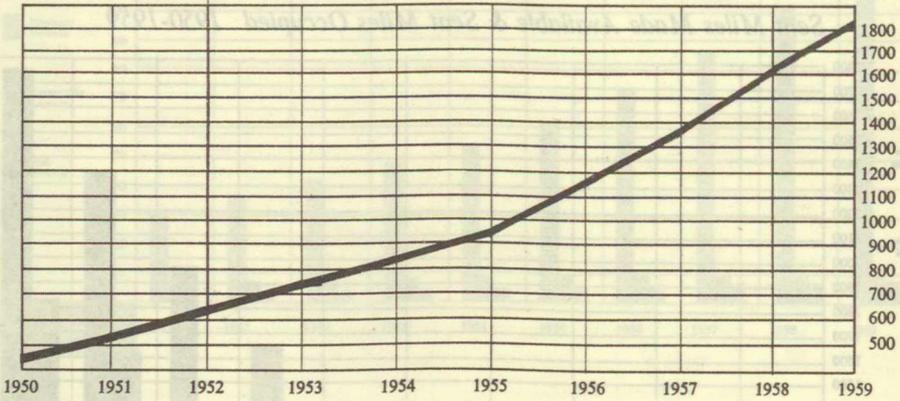
Operating Costs Per Available Ton Mile - 10-Year Period



Growth of Passenger, Commodity & Mail Traffic 1950-1959

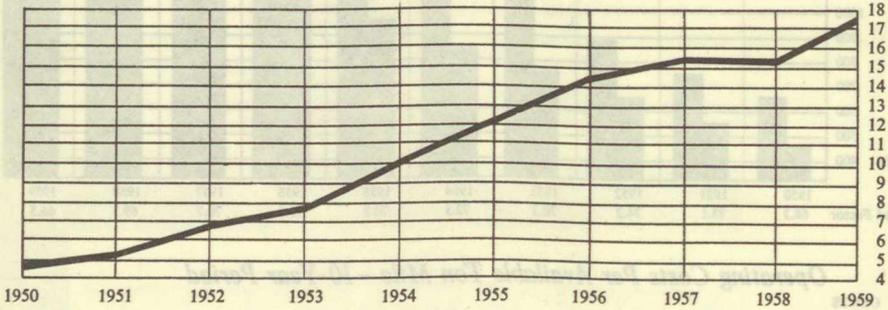
Revenue Passenger Miles

in millions



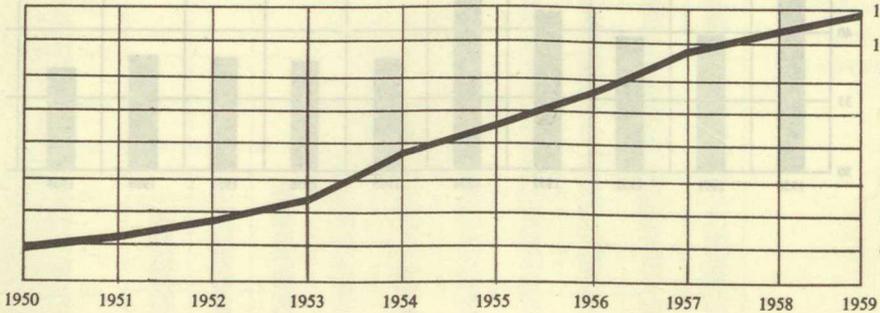
Commodity Ton Miles

in millions



Mail Ton Miles

in millions



TRANS-CANADA AIR LINES BALANCE SHEET AS AT DECEMBER 31st 1959

ASSETS

CURRENT ASSETS

| | | |
|---|--------------|---------------|
| Cash | | \$ 9,160,386 |
| Accounts receivable | | |
| Government of Canada | \$ 1,788,759 | |
| Traffic balances from other air lines | 2,607,520 | |
| Air travel plans | 2,875,074 | |
| Travel agents | 951,401 | |
| Other | 3,364,847 | |
| | | 11,587,601 |
| Materials and supplies—latest invoice price | | 12,119,921 |
| Other current assets | | 215,955 |
| | | \$ 33,083,863 |

INSURANCE FUND

| | | |
|--|--|-----------|
| | | 5,845,866 |
|--|--|-----------|

CAPITAL ASSETS

| | | |
|--------------------------------------|---------------|---------------|
| Property and equipment—at cost | \$130,080,399 | |
| Less: Accumulated depreciation | 61,023,132 | |
| | | \$ 69,057,267 |
| Progress payments | 67,425,729 | |
| | | 136,482,996 |
| | | \$175,412,725 |

LIABILITIES

CURRENT LIABILITIES

| | | |
|---|--|---------------|
| Accounts payable | | \$ 9,851,714 |
| Traffic balances payable to other air lines | | 3,887,296 |
| Air travel plan deposits | | 1,714,025 |
| Salaries and wages | | 1,951,922 |
| Prepaid transportation | | 3,140,609 |
| Interest payable | | 2,079,625 |
| | | \$ 22,625,191 |

LOANS AND DEBENTURES—Canadian National Railways

| | | |
|---------------------|---------------|-------------|
| Notes payable | \$ 66,906,000 | |
| Debentures | 68,194,000 | |
| | | 135,100,000 |

INSURANCE RESERVE

| | | |
|--|--|-----------|
| | | 5,845,866 |
|--|--|-----------|

CAPITAL STOCK

| | | |
|--|--|-----------|
| Common stock—authorized 250,000 shares par value | | |
| \$100 per share | | |
| —issued and fully paid, 50,000 shares | | 5,000,000 |

SURPLUS

| | | |
|--------------------------------|--------------|-----------|
| Balance, January 1, 1959 | \$ 6,689,114 | |
| Net income, year 1959 | 152,554 | |
| | | 6,841,668 |

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

| | | |
|--|--|---------------|
| Balance of payments for equipment and construction under contract | | \$ 81,000,000 |
| Notes under discount with the bank in connection with the Pay Later Plan | | 1,890,000 |

This is the balance sheet referred to in my report to the Minister of Transport dated February 11, 1960.

J. A. de LALANNE
 CHARTERED ACCOUNTANT
Auditor.

W. S. HARVEY
Comptroller.

STATEMENT OF INCOME

| | 1959 | 1958 |
|--|----------------------|----------------------|
| OPERATING REVENUES | | |
| Passenger..... | \$114,338,529 | \$101,553,258 |
| Mail..... | 9,986,475 | 9,893,622 |
| Express and Freight..... | 7,265,752 | 6,536,107 |
| Excess Baggage..... | 1,040,975 | 977,494 |
| Charter..... | 876,611 | 490,594 |
| Incidental Services—Net..... | 1,170,406 | 1,103,784 |
| Total..... | \$134,678,748 | \$120,554,769 |
| OPERATING EXPENSES | | |
| Flying Operations..... | \$ 28,338,907 | \$ 26,143,144 |
| Maintenance..... | 34,019,516 | 30,500,636 |
| Passenger Service..... | 9,636,870 | 7,982,693 |
| Aircraft and Traffic Servicing..... | 24,320,876 | 22,438,282 |
| Sales and Promotion..... | 18,913,247 | 16,887,670 |
| General and Administrative..... | 4,890,773 | 4,177,309 |
| Total..... | \$120,120,189 | \$108,129,734 |
| INCOME FROM OPERATIONS..... | \$ 14,558,559 | \$ 12,425,035 |
| Provision for Depreciation..... | 12,145,082 | 9,911,049 |
| | \$ 2,413,477 | \$ 2,513,986 |
| Non-Operating Income—Net..... | 727,495 | 529,029 |
| INCOME BEFORE INTEREST EXPENSE..... | \$ 3,140,972 | \$ 3,043,015 |
| Interest on Capital Invested..... | 2,988,418 | 2,495,586 |
| NET INCOME..... | \$ 152,554 | \$ 547,429 |

NOTE: Consistent with the provisions of the Income Tax Act, the Airline intends to claim capital cost allowance (depreciation) sufficient to offset any taxable income.

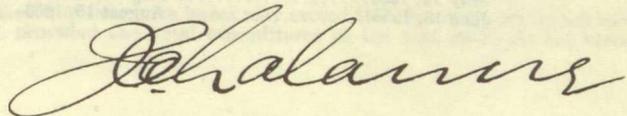
AUDITOR'S REPORT

TO THE HONOURABLE THE MINISTER OF TRANSPORT,
OTTAWA, CANADA.

I have examined the balance sheet of Trans-Canada Air Lines as at December 31, 1959 and the statement of income for the year ended on that date. My examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances.

In my opinion, the accompanying balance sheet and the related statement of income are properly drawn up, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, so as to give a true and fair view of the state of affairs of the Corporation at December 31, 1959 and of the results of its operations for the year ended on that date, according to the best of my information and the explanations given to me and as shown by the books of the Corporation.

I further report that, in my opinion, proper books of account have been kept by the Corporation and the transactions that have come under my notice have been within the powers of the Corporation.



Chartered Accountant.

FEBRUARY 11, 1960.

SIGNIFICANT STATISTICS

| | 1959 | 1958 | % Change |
|---|-----------|-----------|-------------|
| Revenue Passengers..... | 3,209,197 | 2,785,523 | +15.2% |
| Seat Miles Made Available (000's)..... | 2,749,228 | 2,344,733 | +17.3% |
| Seat Miles Occupied (000's)..... | 1,828,902 | 1,625,689 | +12.5% |
| Revenue Passenger Load Factor..... | 66.5% | 69.3% | |
| Mail Ton Miles (000's)..... | 10,905 | 10,386 | + 5.0% |
| Express Ton Miles (000's)..... | 2,653 | 2,469 | + 7.5% |
| Freight Ton Miles (000's)..... | 15,100 | 12,926 | +16.8% |
| Ton Miles Made Available (000's)..... | 356,732 | 310,388 | +14.9% |
| Ton Miles Used (000's)..... | 208,208 | 185,516 | +12.2% |
| Weight Load Factor..... | 58.4% | 59.8% | |
| Total Aircraft Miles Flown (000's)..... | 56,981 | 51,566 | 10.5+% |
| % Scheduled Miles Completed..... | 97.9% | 97.5% | |
| Average Number of Employees..... | 10,358 | 10,020 | + 3.4% |
| Seat Miles Made Available per Employee..... | 265,421 | 234,005 | +13.4% |

TRANS-CANADA AIR LINES

CAPITAL BUDGET—1960

(Expressed in Thousands)

APPLICATION OF FUNDS:

| | |
|--|------------------|
| Property and Equipment (details appended)..... | \$ 83,485 |
| Refinancing Loans—CNR (details below)..... | 4,000 |
| Increased Material and Supplies (due introduction 2 new aircraft types)..... | 10,015 |
| | <u>\$ 97,500</u> |

SOURCE OF FUNDS:

| | |
|-----------------------------|---------------|
| Net Income..... | nil |
| Depreciation Provision..... | \$ 15,150 |
| | <u>15,150</u> |

FINANCED THROUGH CANADIAN NATIONAL RAILWAYS.....

\$ 82,350

REFINANCING LOANS—CNR

Loans secured by notes maturing 1960:

| Date of Note | Due Date | Amount |
|---------------------|----------------------|-----------------|
| April 30, 1956..... | May 15, 1960..... | \$ 500 |
| May 14, 1956..... | May 15, 1960..... | 500 |
| May 14, 1956..... | June 15, 1960..... | 1,000 |
| May 14, 1956..... | July 15, 1960..... | 1,000 |
| June 15, 1956..... | August 15, 1960..... | 1,000 |
| | | <u>\$ 4,000</u> |

TRANS-CANADA AIR LINES

PROPERTY AND EQUIPMENT BUDGET—1960

| | Expenditure Commitments | | | |
|--|---|--|-------------|---------------------------|
| | Projects Proposed Current Budget | Projects Authorized Prev. Budgets | Total | * 1960 Expenditures |
| | (000) \$ | (000) \$ | (000) \$ | (000) \$ |
| AIRPLANES AND COMPONENTS | | | | |
| Airplanes..... | 16,815† | 69,660 | 86,475 | 52,570 |
| Betterment Projects..... | 325 | 670 | 995 | 820 |
| Spare Engines..... | | 4,990 | 4,990 | 4,990 |
| Total..... | 17,140 | 75,320 | 92,460 | 58,380 |
| GROUND FACILITIES AND COMPONENTS | | | | |
| Flight Handling..... | 2,730 | 600 | 3,330 | 3,330 |
| Maintenance and Overhaul..... | 1,790 | 2,760 | 4,550 | 4,550 |
| Office Equipment..... | 540 | 50 | 590 | 590 |
| Flight Trainers..... | 55 | 335 | 390 | 390 |
| Miscellaneous Equipment..... | 280 | 3,070 | 3,350 | 2,020 |
| | 5,395 | 6,815 | 12,210 | 10,880 |
| BUILDINGS AND IMPROVEMENTS..... | 805 | 13,970 | 14,775 | 13,925 |
| CONTINGENCY FUND..... | 300 | — | 300 | 300 |
| TOTAL PROPERTY AND EQUIPMENT..... | 23,640 | 96,105 | 119,745 | 83,485 |
| EXPENDITURE PROGRAM: | | | | |
| 1960—Major Commitments..... | 750 | 71,940 | 72,690 | |
| —Other..... | 6,005 | 4,790 | 10,795 | |
| | 6,755 | 76,730 | 83,485 | |
| 1961—Major Commitments..... | 5,315 | 18,390 | 23,705 | |
| —Other..... | 70 | 105 | 175 | |
| | 5,385 | 18,495 | 23,880 | |
| 1962—Major Commitments..... | 11,500 | 880 | 12,380 | |
| TOTAL—Major Commitments..... | 17,565 | 91,210 | 108,775 | |
| —Other..... | 6,075 | 4,895 | 10,970 | |
| | 23,640 | 96,105 | 119,745 | |

† No expenditure in 1960.

* The expenditure with respect to each of the above items may exceed the amount shown by not more than 10% without further approval, provided the total expenditures on the said items do not exceed \$83,485,000.

The CHAIRMAN: Next is the auditors' report.

Mr. CHEVRIER: Mr. Chairman, may I ask what was done with reference to the auditors' report of the C.N.R. yesterday?

The CHAIRMAN: It was adopted.

Mr. CHEVRIER: I take it that it was, but was there any examination of the auditors' report?

The CHAIRMAN: No.

Mr. CHEVRIER: Was he here?

The CHAIRMAN: Yes, the auditor was here yesterday; and he is here today. I would like to introduce to the committee the new auditor, Mr. J. A. deLalanne. This is his first year.

Now, we are open for a motion for the adoption.

Mr. CHEVRIER: If I may, Mr. Chairman, I would like to ask a few questions on this.

The CHAIRMAN: On the auditors' report?

Mr. CHEVRIER: Yes.

The CHAIRMAN: Very well. Mr. deLalanne, will you come up to the head table?

Mr. CHEVRIER: May I ask when you took over as auditor of the T.C.A.?

Mr. J. A. DELALANNE (*Chartered Accountant*): In 1959.

Mr. CHEVRIER: How much time does an audit like this take, or is it a continuing audit?

Mr. DELALANNE: Oh yes. I had staffs working in many offices almost continuously.

Mr. CHEVRIER: Do you have to visit the various areas in which T.C.A. has operations, like overseas—transporter?

Mr. DELALANNE: I do not visit the overseas offices as such, except I was there last year; but I did not do any accounting overseas on T.C.A.

Mr. CHEVRIER: Do any of your staff do it?

Mr. DELALANNE: Not as yet. The staff is provided by McDonald Currie and Company, a firm in which I was a partner, and now I am a consultant. The majority of the work is carried out in Winnipeg and Montreal.

Mr. CHEVRIER: But none of the work is carried on overseas.

Mr. DELALANNE: The main accounting is in Montreal and Winnipeg.

Mr. CHEVRIER: Then you have no agents outside of Canada?

Mr. DELALANNE: Yes, we have. McDonald Currie and Company has a world-wide affiliation through different firms.

Mr. CHEVRIER: What is the relationship between your firm and McDonald Currie and Company?

Mr. DELALANNE: I was associated with McDonald Currie and Company for approximately 40 years, and I am a retired managing partner, as a consultant to the firm. But any work I do is turned over to the firm, and it is supported and protected in exactly the same way as it would have been had I still been a manager-partner.

Mr. CHEVRIER: Is this work being done by you personally or McDonald Currie and Company?

Mr. DELALANNE: By the staff of McDonald Currie and Company under my supervision. Since it is in my name I have over the past year given much more time to it.

Mr. CHEVRIER: How many persons would be assigned to an audit such as this?

Mr. DELALANNE: Probably 50 or more, working in various places.

Mr. CHEVRIER: And did you examine the work that was done by your predecessors?

Mr. DELALANNE: We have looked into the accounts for consistency, and I have gone over the reports of my predecessors to a considerable extent. I have made comparative statements over the years, and followed it up. I have read their various reports for several years.

Mr. CHEVRIER: Did you find anything the matter with the audit by your predecessors of T.C.A. operations?

Mr. DELALANNE: No.

Mr. DRYSDALE: Have you any questions on the audit?

Mr. CHEVRIER: Yes, I have. Mr. deLalanne, there is a reference to the insurance fund and reserve. Reference is made to a net amount of \$710,852 charged against the reserve for loss of aircraft and settlement of claims. Could you tell the committee what the origin of this is? I think it is on page 6.

Mr. DELALANNE: I do not think I have those figures here, Mr. Chevrier. Those were the net charges against the reserve during the year for the claims that were settled.

Mr. CHEVRIER: Could you give the committee any idea what the origin of these claims were?

Mr. DELALANNE: I can get that information for you. I just do not have it readily available at the moment. However, there was one large claim for an aircraft.

Mr. MCGREGOR: We have that information, if we could supply it.

Mr. CHEVRIER: Could you answer the question?

Mr. MCGREGOR: Yes. You want the nature of the claim.

Mr. CHEVRIER: The nature of the \$710,852 charged against the revenues for loss of aircraft.

Mr. MCGREGOR: This was the damage beyond economical repair of a Viscount landing in Malton in October, 1959; and the total charges represented by that were \$741,700.

Mr. CHEVRIER: That is all.

Mr. FISHER: Do you bid on such a job as this?

Mr. DELALANNE: No sir, definitely not.

Mr. FISHER: I have a supplementary question. What was the channel of your appointment?

Mr. DELALANNE: By parliament.

Mr. FISHER: How did you know that this job was going?

Mr. HEES: I will answer you. At no time did Mr. deLalanne or the firm with which he is associated ever approach me or the government to obtain this business. They were appointed because we considered that they were a firm which was admirable—a firm and a gentleman in the firm, Mr. deLalanne, who were admirable to handle this type of work for the Canadian National Railways and for Trans-Canada Air Lines. They did not approach us.

Mr. FISHER: My question was prompted solely out of curiosity.

Mr. HEES: I know. Your questions always are. Therefore I wanted to give you a full answer.

Mr. DRYSDALE: Might I discuss the auditor's report. I was interested on page 5 under "Materials and Supplies", where it is stated:

The method of valuation is consistent with that followed in prior years, namely, laid down cost based on latest invoice prices, with appropriate reductions for obsolete items.

Would you comment on your method? Is it satisfactory?

Mr. DELALANNE: It is a consistent method. If the stores are used quickly and if there is no change in prices, then it is a very consistent way of doing it. Moreover, with an organization as large as this, it is probably as convenient a way of doing it as could be found.

The only time there might be something out of line would be if the stores had been on hand over a very extended period, when there might have been some change in the prices, in which case it would be necessary to make adjustments of some sort to bring them in line with previous years.

Mr. DRYSDALE: On page seven under the heading "General" it says:

In accordance with the corporation's policy of not depreciating assets until they are available for service, no depreciation has been provided against the accumulated costs of work under construction for the new Dorval maintenance and overhaul base.

What is the effect, shall I say, on the balance sheet of this type of improved method of depreciation?

Mr. de LALANNE: There are two ways of deciding when depreciation will be taken. In the old days it was the practice that when something was put into use, in manufacturing or for some other purpose, and it was going to earn, then depreciation would start.

But in recent years, if you buy something around the 29th or 30th of December, the income tax provisions permit you to take depreciation on it against your profits. So I am afraid there is a tendency to take immediate advantage and get a reduction in earnings on which taxes would have to be paid.

I think the system followed here of taking the time when the machinery or the equipment is put into use as indicating the time when earnings come in, is the most satisfactory time to start your depreciation.

Mr. DRYSDALE: This is approximately \$17 million. Do you think it distorts the balance sheet in that particular year?

Mr. de LALANNE: No, I would not say so. Depreciation of course is only a method of writing off. When depreciation charges are made in one year, it does not mean that there is necessarily destruction.

Mr. FRASER: I would like to move the adoption of the auditor's report.

Mr. DRYSDALE: I second the motion.

The CHAIRMAN: It has been moved by Mr. Fraser and seconded by Mr. Drysdale that we adopt the auditor's report. All those in favour?

Motion carried.

J. A. de LALANNE
Chartered accountant
507 Place d'Armes, Montreal

February 11, 1960.

TO THE HONOURABLE THE MINISTER OF TRANSPORT,
OTTAWA, CANADA.

Sir:

As auditor of Trans-Canada Air Lines, I report, through you, to Parliament on my audit of the accounts for the year ended December 31, 1959.

I have signed a separate report in the following terms which, together with the relative financial statements, is included in the annual report of the Corporation.

"I have examined the balance sheet of Trans-Canada Air Lines as at December 31, 1959 and the statement of income for the year ended on that date. My examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances.

In my opinion, the accompanying balance sheet and the related statement of income are properly drawn up, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, so as to give a true and fair view of the state of the affairs of the Corporation at December 31, 1959 and of the results of its operations for the year ended on that date, according to the best of my information and the explanations given to me and as shown by the books of the Corporation.

I further report that, in my opinion, proper books of account have been kept by the Corporation and the transactions that have come under my notice have been within the powers of the Corporation."

I offer the following further comments—

CURRENT POSITION — WORKING CAPITAL

There was an increase of \$4,380,844 in working capital during the year as under:

| | December 31 | | |
|---------------------------|---------------------|---------------------|--------------------|
| | 1959 | 1958 | Increase |
| Current assets | \$33,083,863 | \$24,355,116 | \$8,728,747 |
| Current liabilities | 22,625,191 | 18,277,288 | 4,347,903 |
| Working capital | <u>\$10,458,672</u> | <u>\$ 6,077,828</u> | <u>\$4,380,844</u> |

The increase is attributed to the following:

Funds Provided from—

| | | |
|--|--------------|-------------------|
| Net income for the year | | \$ 152,554 |
| Depreciation provision—not requiring outlay of funds | | 12,145,082 |
| Net increase in advances by Canadian National Railways | | 52,000,000 |
| Assets retired | \$ 1,820,480 | |
| Less: Amount charged against accumulated depreciation | 991,556 | 828,924 |
| | | <u>65,126,560</u> |

Funds Applied to—

| | | |
|---|------------|------------|
| Additions to property and equipment | 12,241,122 | |
| Progress payments on capital commitments | 48,504,594 | 60,745,716 |

Net Increase in Working Capital \$ 4,380,844

CAPITAL ASSETS

Property and Equipment

There was a reduction of \$1,978,807 during the year in the net investment in property and equipment, accounted for as under:

Additions

| | | |
|---|--|--------------|
| Aircraft and component parts—including 4 Viscounts and 1 Super Constellation | | \$10,075,215 |
| Ground facilities and components | | 2,165,907 |
| | | <hr/> |
| | | 12,241,122 |

| | | |
|--|--------------|-----------|
| <i>Less: Assets retired</i> | \$ 1,820,480 | |
| Construction costs previously capitalized, now carried as progress payments | 1,245,923 | 3,066,403 |
| | | <hr/> |
| | | 9,174,719 |

Net Increase in accumulated depreciation

| | | |
|--|------------|------------|
| Provided through operations in 1959 | 12,145,082 | |
| <i>Less: Charges for retirements</i> | 991,556 | 11,153,526 |

Net Reduction in Property and Equipment \$ 1,978,807

Depreciation has been provided on a "straight line" method as follows:

Super Constellation—to reduce to residual values over a period of seven years from date of being put into service. Special rates are being used for two aircraft acquired under a re-purchase agreement with the supplier.

Viscount—to reduce to residual values over a period of nine years from date of being put into service.

North Star and DC3—reduced to residual values in prior years.

Ground facilities —to amortize over estimated useful life, the period depending upon the type of asset.

Progress Payments

These increased during the year by a net amount of \$49,750,517.

Progress payments of \$67,425,729 at December 31, 1959 apply to the following commitments, including capitalized interest:

| | |
|--|--------------|
| 10 Douglas DC8's for delivery in 1960 and 1961, including spare equipment | \$26,626,314 |
| 20 Vanguards for delivery in 1960 and 1961, including spare equipment | 21,256,485 |
| Flight Simulator—Vanguard | 331,153 |
| Dorval maintenance and overhaul base | 18,794,282 |
| Other buildings | 92,049 |
| Automatic Reservation System | 325,446 |

\$67,425,729

Further payments totalling \$81,000,000 remain to be paid either prior to or on completion of unfinished contracts.

At December 31, 1959 the Corporation was protected by forward contracts against foreign currency fluctuations on aircraft purchase commitments to the extent of \$13,150,000 in United States funds and £ 720,000 in Sterling.

Materials and Supplies

A physical inventory was taken during the year by personnel of the Corporation and appropriate adjustments were made in the records for overages and shortages disclosed. Considering the volume and variety of the items in stock, such differences were relatively small.

The method of valuation is consistent with that followed in prior years, namely, laid down cost based on latest invoice prices, with appropriate reductions for obsolete items.

Loans and Debentures

There was a net increase during the year of \$52,000,000 in the loans and debentures payable to Canadian National Railways, being advances of \$57,000,000 less a repayment of \$5,000,000. Short term and demand notes payable to the extent of \$41,694,000 were converted to debentures during 1959.

Notes and debentures outstanding at December 31, 1959 become payable as follows:

| | |
|---|--------------|
| Notes—Maturing during 1960 | \$ 4,000,000 |
| Demand | 62,906,000 |
| | <hr/> |
| | \$66,906,000 |
| | <hr/> |
| Debentures—Maturing—December 15, 1964 | \$34,994,000 |
| May 15, 1968 | 2,680,000 |
| January 1, 1973 | 20,000,000 |
| May 15, 1977 | 4,020,000 |
| February 1, 1981 | 6,500,000 |
| | <hr/> |
| | \$68,194,000 |
| | <hr/> |

Effective January 1, 1960, notes totalling \$17,497,000 were converted to debentures maturing January 1, 1985.

Insurance Fund and Reserve

At December 31, 1959 these stood at \$5,845,866 as compared with \$6,000,000 at the end of the previous year, a reduction of \$154,134. At the end of the year the fund was comprised of:

| | |
|---|-------------|
| Cash | \$ 4,594 |
| Securities—at cost | 6,318,740 |
| —accrued interest | 64,323 |
| | <hr/> |
| | 6,387,657 |
| Less: Amount payable to Corporation | 541,791 |
| | <hr/> |
| | \$5,845,866 |
| | <hr/> |

The quoted market value of securities at December 31, 1959 was 18% lower than cost, as compared with 12% at the end of the previous year.

During the year under review, the Corporation became self-insured for all in-flight hull and passenger liability, except third party loss.

Accordingly, the fund was increased by an amount of \$337,713, which it was estimated would otherwise have been payable to underwriters, and by interest of \$219,005 earned on securities held in the fund.

In prior years the interest earned was included in other income but its retention in the fund would appear to be desirable in view of the increased responsibility assumed.

A net amount of \$710,852 was charged against the Reserve for loss of aircraft and settlement of claims.

Statement of Income

Net income for the year 1959 was \$152,554 as compared with \$547,429 for the year 1958.

There was an overall increase of 12% in operating revenues, the most significant being Passenger 13%, Express and Freight 11% and Charter 7%.

Operating expenses, excluding depreciation, increased by 11%.

While the income from operations was \$2,133,524 higher than that for 1958, this improvement was offset by added charges required for depreciation on new equipment and higher interest costs.

General

In accordance with the Corporation's policy of not depreciating assets until they are available for service, no depreciation has been provided against the accumulated costs of work under construction for the new Dorval maintenance and overhaul base.

Where applicable, foreign currencies at December 31, 1959 have been converted at the following rates:

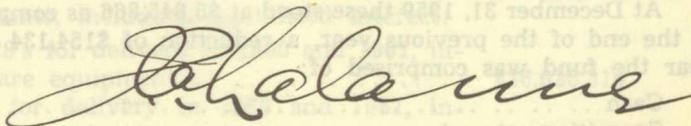
United States dollars at par

Sterling at \$2.80 to the pound.

During the year the Corporation made small payments on account of income taxes on adjusted profits for the year 1958 and as an instalment on any liability which may accrue for 1959. No further provision has been made as the Corporation intends to claim capital cost allowance, as permitted by regulations under the Income Tax Act, sufficient to reduce taxable income to a minimum.

I have received the complete co-operation of the officers and staff of the Corporation in the carrying out of my duties, for which I express my sincere appreciation.

Yours faithfully,



Chartered Accountant

Mr. FRASER: May we thank Mr. McGregor for the nice meal we did not have?

Mr. HEES: That is the cheapest party he ever gave.

The CHAIRMAN: Before I invite Mr. McGregor to make any comments, I want to thank you for your services in attending here, and in expediting the business.

Mr. BROWNE (*Vancouver-Kingsway*): Before the committee adjourns may I raise a question of privilege in connection with the proceedings yesterday. When the meeting came to its close, it was very close to 6 o'clock, and I think the final happenings were not quite clear. You asked Mr. Gordon for certain information concerning the technical operations of the Canadian National Railways which, through your influence, he finally offered to give to me personally. But I declined that offer because I felt that I could not accept the responsibility of having that information, because if it became public knowledge, I would be accused of having leaked it all over the country. I thought it was unfair to the committee that one member should have it and not the others, so I declined the offer, with thanks.

The CHAIRMAN: It was rather unfortunate that you had to look a gift horse in the mouth.

Mr. BROOME: Do you think that for future meetings it might be well to reverse the order of business and have the T.C.A. considered first, rather than the C.N.R.?

The CHAIRMAN: What is that, please?

Mr. BROOME: I asked if we might not, in future meetings, reverse the order of business and consider the T.C.A. first rather than the C.N.R., because the T.C.A. people are held up around here for the reason that the C.N.R. is rather indefinite as to the time when it may end its presentation.

The CHAIRMAN: Mr. Broome, you might recall that yesterday there was some discussion as to the advisability of separating them and having them apart.

Mr. BROOME: That is fine.

The CHAIRMAN: I think we can pass the recommendation of Mr. Broome to the steering committee.

Mr. BROOME: We will consider it in writing our final report.

Mr. FISHER: Concerning the final report, I would like to know when the writing of it is going to take place.

The CHAIRMAN: As soon as we get the printed copies. I hope that it will be some time next week. If we can get our membership away from their interest in the budget we will try to do it before Easter, anyway.

Mr. DRYSDALE: I would like to commend Mr. McGregor for the very excellent presentation which he has made, and I hope he will continue this form of presentation next year, because personally I found it invaluable; and by having the president give direction to the discussion I think it was of considerable value to the committee.

The CHAIRMAN: I think Mr. Drysdale is speaking on behalf of the whole committee when he says that. I think we all appreciated the excellent presentation this year, with the graphs, and Mr. Gordon McGregor's usually clear-cut way of explaining them. I think it has been very interesting and beneficial all round.

Mr. MCGREGOR: Thank you very much, Mr. Chairman. That disposes of my question, which was to ask the opinion of the committee as to whether it prefers the slide presentation to reading the annual report.

The CHAIRMAN: I think it is excellent.

Mr. MCGREGOR: Thank you very much for your kind comments.

Mr. DRYSDALE: I move we adjourn.

—Committee adjourned.

When the meeting came to its close it was very close to a clock. You asked Mr. Gordon and I think the final happenings were not quite clear. You asked Mr. Gordon for certain information concerning the technical operations of the Canadian National Railways which through your influence he finally offered to give me personally. But I declined that offer because I felt that I could not accept the responsibility of having that information because it became public knowledge I would be accused of having leaked it all over the country. I thought it was unfair to the committee that the member should have it and not the others so I declined the offer with thanks.

of The Chairman: It was rather unfortunate that you had to look a gift horse in the mouth, for damaged goods by some law transgression and, 1961, the order of business and have the T.C.A. considered first, rather than the C.N.R.?

Mr. Broomer: Do you think that for future meetings it might be well to reverse the order of business and have the T.C.A. considered first, rather than the C.N.R.?

Mr. Broomer: I asked if we might not in future meetings reverse the order of business and consider the T.C.A. first rather than the C.N.R. because the T.C.A. people are laid up around here for the reason that the C.N.R. is rather indefinite as to the time when it may end its presentation.

The Chairman: Mr. Broomer, you might recall that yesterday there was some discussion as to the advisability of separating them and having them meet to discuss in themselves their own business, and they are doing it.

The Chairman: I think we can pass the recommendation of Mr. Broomer to the steering committee.

Mr. Broomer: We will consider it in writing our final report tomorrow. I will be writing the final report. I would like to know when the writing of it is going to take place.

The Chairman: As soon as we get the printed copies. I hope that it will be some time next week. If we can get our membership away from their interest in the budget we will try to do it before Easter, anyway.

Mr. Drysdale: I would like to commend Mr. McGregor for the very excellent presentation which he has made and I hope he will continue this form of presentation next year, because personally I found it invaluable, and by having the president give direction to the discussion I think it was of considerable value to the committee.

The Chairman: I think Mr. Drysdale is speaking on behalf of the whole committee when he says that. I think we all appreciated the excellent presentation this year with the graphs and Mr. Gordon McGregor's usually excellent way of explaining them. I think it has been very interesting and beneficial all round.

APPENDIX "A"

TRANS-CANADA AIR LINES

PASSENGER LOAD FACTORS—1958 & 1959

TRANSCONTINENTAL ROUTE LEGS DIRECTLY AFFECTED BY C.P.A. COMPETITION

| | 1958 | 1959 |
|--|-------|-------|
| Vancouver-Toronto (non-stop) | 72.3% | 55.0% |
| Vancouver-Winnipeg (non-stop) | 61.5 | 38.5 |
| Winnipeg-Toronto (non-stop & via Lakehead) .. | 70.8 | 67.0 |
| Toronto-Montreal (non-stop & via Ottawa) | 70.8 | 70.3 |

The above in reply to a question by the Hon. Mr. L. Chevrier.

APPENDIX "B"

TRANS-CANADA AIR LINES

PASSENGER LOAD FACTORS—1958 & 1959

TRANSCONTINENTAL ROUTE LEGS NOT DIRECTLY AFFECTED BY C.P.A. COMPETITION

| | 1958 | 1959 |
|---|-------|-------|
| Vancouver-Calgary-Winnipeg (via Regina) .. | 74.5% | 71.3% |
| Vancouver-Edmonton-Winnipeg (via Saskatoon) | 73.6 | 67.7 |
| Edmonton-Regina-Winnipeg | — | 67.8 |
| Edmonton-Toronto (non-stop) | 74.0 | 69.2 |
| Calgary-Toronto (non-stop) | 69.4 | 58.7 |
| Calgary-Saskatoon-Winnipeg | 72.3 | 69.9 |
| Winnipeg-Windsor-Ottawa | 71.0 | 65.8 |

The above in reply to a question by the Hon. Mr. L. Chevrier.

APPENDIX "C"

TRANS-CANADA AIR LINES

**SEATS PER WEEK IN TRANS-ATLANTIC SERVICE
1959 & 1960**

Seats per Week
each way

| | |
|---|-------|
| <i>Summer, 1959</i> | |
| 16 Super Constellation Flights @ 71 seats | 1,136 |
| <i>Summer, 1960</i> | |
| 7 DC-8 Flights @ 127 seats | 889 |
| 8 Super Constellation Flights @ 82 seats | 656 |
| | 1,545 |
| <i>% Increase</i> | 36% |

The above in reply to a question by the Hon. Mr. L. Chevrier.

APPENDIX "D"

TRANS-CANADA AIR LINES

**Available Seat Miles—Transcontinental
May-December 1958 & 1959**

| | |
|-------------------|-------------|
| 1958 | 805,244,000 |
| 1959 | 926,493,000 |
| <i>% Increase</i> | 15.1% |

In reply to question by Mr. E. J. Broome.

APPENDIX "E"

TRANS-CANADA AIR LINES

Forecast Impact on TCA of Recent Bilateral Route Awards

| Airline | Route | Amount |
|-----------------------------|----------------------------|------------|
| Air France } Lufthansa } | Montreal-Chicago | \$ 200,000 |

The above in reply to a question by the Hon. Mr. L. Chevrier.

Third HOUSE OF COMMONS
Second Session—Twenty-fourth Parliament
1960

SESSIONAL COMMITTEE
ON
**RAILWAYS, AIR LINES
AND SHIPPING**

Owned and Controlled by the Government

Chairman: HONOURABLE W. EARL ROWE

MINUTES OF PROCEEDINGS
No. 4
INCLUDING SECOND AND THIRD REPORTS
TO THE HOUSE

WEDNESDAY, APRIL 13, 1960
WEDNESDAY, APRIL 27, 1960
THURSDAY, APRIL 28, 1960
THURSDAY, MAY 5, 1960

On all matters contained in Order of Reference
of Thursday, March 24, 1960.

SESSIONAL COMMITTEE ON RAILWAYS, AIR LINES AND SHIPPING
owned and controlled by the Government

Chairman: Hon. W. EARL ROWE

Vice-Chairman: C. E. CAMPEAU

and Messrs.

| | | |
|---|-------------------------|--------------------------------|
| Badanai, | Creaghan, | McPhillips, |
| ¹ Benidickson, | Drysdale, | McWilliam, |
| Brassard, (<i>Lapointe</i>), | Fisher, | Mitchell, |
| Broome, | Fraser, | Monteith (<i>Verdun</i>), |
| ² Browne (<i>Vancouver-</i> | Grills, | Pascoe, |
| <i>Kingsway</i>), | Horner (<i>Jasper-</i> | Robinson, |
| Carter, | <i>Edson</i>), | ³ Smallwood, |
| Chevrier, | Kennedy, | Smith (<i>Simcoe North</i>). |
| Chown, | Martini, | |

Antoine Chasse,
Clerk of the Committee.

1. Replaced Mr. Granger
 2. Replaced Mr. Bourbonnais
 3. Reinstated at 2.30 o'clock, p.m., 31st March, 1960. (Vice Mr. Howe).
- } on 28th March, 1960.

Correction

Page 166, fifth paragraph, last line:

Substitute the name of Mr. Browne for the name of Mr. Chown.

ORDER OF REFERENCE

THURSDAY, March 24, 1960.

Ordered,—That the Annual Reports for 1959 of the Canadian National Railways, Canadian National (West Indies) Steamships Limited, Canadian National Railways Securities Trust, Auditor's Reports to Parliament in respect of the Canadian National Railways and of the Canadian National (West Indies) Steamships Limited, the budget for 1960 of the Canadian National Railways, the Annual Report of Trans-Canada Air Lines for 1959, the Auditor's Report to Parliament on Trans-Canada Air Lines for 1959, tabled this day, and the budget for 1960 of Trans-Canada Air Lines, tabled on March 1, 1960, be referred to the Sessional Committee on Railways, Air Lines and Shipping; and that Items numbered 420—Prince Edward Island Car Ferry and Terminals Deficit 1960, 421—Newfoundland Ferry and Terminals Deficit 1960, and 429—Maritime Freight Rates Act, as listed in the Main Estimates of 1960-61, be withdrawn from the Committee of Supply and referred to the said Committee, saving always the powers of the Committee of Supply in relation to the voting of public monies.

Attest.

L.-J. RAYMOND,
Clerk of the House.

REPORTS TO THE HOUSE

FRIDAY, April 1, 1960.

The Sessional Committee on Railways, Air Lines and Shipping, owned and controlled by the Government, has the honour to present its

SECOND REPORT

Your Committee has considered the following items of the Estimates for the fiscal year ending March 31, 1961, referred to it on March 24, 1960, and recommends their approval, namely:

Vote 420—Prince Edward Island Car Ferry and Terminals (Deficit 1960);

Vote 421—Newfoundland Ferry and Terminals (Deficit 1960);

Vote 429—Maritime Freight Rates Act.

Respectfully submitted,

W. EARL ROWE,
Chairman.

FRIDAY, May 6, 1960.

The Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government has the honour to present its

THIRD REPORT

By Order of Reference of March 24, 1960, the Committee had referred to it, among other things, the following:

1. The Annual Report of the Canadian National Railways for the year ending December 31, 1959;
2. The Auditor's Report to Parliament in respect of the Canadian National Railways;
3. The budget for 1960 of the Canadian National Railways;
4. The Annual Report of the Canadian National (West Indies) Steamships, Limited, for the year ending 31st December, 1959;
5. The Auditor's Report to Parliament in respect of the Canadian National (West Indies) Steamships, Limited;
6. The Annual Report of Canadian National Railways Securities Trust for the year ending 31st December, 1959;
7. The Annual Report of Trans-Canada Air Lines for the year ending 31st December, 1959;
8. The Auditor's Report in respect of Trans-Canada Air Lines;
9. The budget for 1960 of Trans-Canada Air Lines.

The Committee held eleven meetings, during six of which the above-mentioned reports and budgets were carefully considered and, under the authority granted by the Order of Reference of March 23, 1960, the following were called

to answer questions relating to the matters under study: Mr. Donald Gordon, President, Mr. S. F. Dingle, Vice-President (Operations), and Mr. J. L. Toole, Vice-President (Accounting and Finance), of the Canadian National Railways; Mr. J. R. McGregor, President of Trans-Canada Air Lines; and Mr. J. A. de Lalanne, C.A., Auditor.

The Committee is grateful to these officials for their continued attendance and was particularly pleased with the newly inaugurated method of presentation by the use of slides projected on screen highlighting the main features of the said reports and budgets, the operation and future programs of the Government owned and controlled rail and air transportation systems.

While the Committee recognizes the importance of the work to be done by the officials of the Government owned and controlled transportation companies in the day to day operation of the services it is also mindful of the task the members have to perform in examining the spending of public funds. The Committee feels that it would be more convenient to all concerned if there was a reasonable time lapse between the hearings of Canadian National Railways and Trans-Canada Air Lines officials.

Much of the Committee's time was taken in the examination of the Dieselization program of the Canadian National Railways which will be completed this year, and on the new system of Centralized Traffic Control.

The Committee expressed its concern to the officials about the disruption to communities caused by these technological improvements and the consequent dislocation of the labor force. The Committee is of the opinion that management should do more to prepare communities for the effects of these technological changes.

The Committee takes a serious view of the continuing deficits of the Canadian National Railways.

The Committee recommends that the Government might consider the advisability of strengthening the Board of Directors of the Canadian National Railways by adding to its present number.

The Committee having heard evidence relating to contracts awarded by the Canadian National Railways recommends that the management consider the advisability of including in all contracts a stipulation requiring preference for Canadian goods and services.

The Committee was gratified to hear that the first of the 1960 fleet of DC-8 Jetliners had been delivered to Trans-Canada Air Lines and that plans were made for these 550-m.p.h. 127-passenger aircraft to begin a daily transcontinental air service between Montreal, Toronto and Vancouver on April 1st, and a daily trans-Atlantic air service on June 1st.

After a detailed examination of all the evidence before it and in compliance with the Orders of Reference of March 23rd and 24th, the Committee has, subject to the observations hereinabove expressed, agreed to report its approval of all the reports and budgets under study.

A copy of the Minutes of Proceedings and Evidence pertaining to the matters referred to in the Second Report of April 1st and in the present Report is appended hereto.

Respectfully submitted,

W. EARL ROWE,
Chairman.

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, Room 238-S.

WEDNESDAY, April 13, 1960.

(8)

The Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government met *in camera* at 10.00 o'clock a.m. The Chairman, the Honourable W. Earl Rowe, presided.

Members present: Messrs. Brassard (*Lapointe*), Broome, Browne (*Vancouver-Kingsway*), Carter, Chown, Creaghan, Fisher, Fraser, Martini, Monteith (*Verdun*), Pascoe, Robinson, Rowe and Smallwood.—(14)

At the commencement of the deliberations the Chairman read a letter to himself from Mr. Donald Gordon, President, Canadian National Railways, expressing his thanks to the Chairman and members of the Committee for their consideration and giving an undertaking to the effect that an effort would be made to improve further on the presentation of the annual reports and budgets. (*See Appendix "A"*).

The Chairman then submitted a draft Report for consideration and other suggestions by members were discussed and approved for incorporation in the said Report.

It was agreed that the Chairman be empowered to write to the C.N.R. management in relation to a suggestion that in the future, where charts and graphs are again used, the management prepare in advance copies for the use of each member of the Committee and that all such charts should show the source of information used in their compilation.

After some discussion it was agreed that another draft report embodying the various suggestions made during the meeting be prepared and submitted for the consideration of the Committee when it reconvenes after the Easter Recess.

At 11.00 o'clock a.m. the Committee adjourned to the call of the Chair.

THE SENATE, Room 356-S.

WEDNESDAY, April 27, 1960.

(9)

The Committee met *in camera* at 10:00 o'clock a.m. The Chairman, the Honourable W. Earl Rowe, presided.

Members present: Messrs. Badanai, Browne (*Vancouver-Kingsway*), Carter, Chown, Creaghan, Drysdale, Fisher, Fraser, Kennedy, Martini, McPhillips, Rowe, Smith (*Simcoe North*).—(13)

The Committee considered a draft report to the House to which many changes were proposed and approved.

And the discussion continuing, consideration of the Report was adjourned.

At 11.15 o'clock a.m. the Committee adjourned to the call of the Chair.

HOUSE OF COMMONS, Room 238-S.

THURSDAY, April 28, 1960.

(10)

The Committee met *in camera* at 4:00 o'clock p.m. The Chairman, the Honourable W. Earl Rowe, presided.

Members present: Messrs. Browne (*Vancouver-Kingsway*), Chown, Creaghan, Drysdale, Fisher, Kennedy, Martini, McPhillips, Mitchell, Rowe.—(10)

The Committee resumed from the previous day consideration of a draft report to the House. And the discussion continuing, consideration of the said report was again adjourned.

At 5:00 o'clock p.m. the Committee adjourned to the call of the Chair.

THURSDAY, May 5, 1960.

(11)

The Committee met *in camera* at 4.00 o'clock p.m. The Chairman, the Honourable W. Earl Rowe, presided.

Members present: Messrs. Broome, Carter, Fisher, Grills, Kennedy, Mitchell, McPhillips, Monteith (*Verdun*), Pascoe, Rowe, Smallwood and Smith (*Simcoe North*).—(12).

The Committee resumed from Thursday, April 28, 1960 the consideration of a draft Report to the House.

Slight changes were made to the draft Report before the Committee and, on motion of Mr. Smith (*Simcoe North*), seconded by Mr. Mitchell, the draft Report as read by the Chairman was finally approved and ordered to be presented to the House as the Third Report.

At 4.20 p.m. the Committee adjourned *sine die*.

Antoine Chassé

Clerk of the Committee.

APPENDIX "A"

CANADIAN NATIONAL RAILWAYS

MONTREAL,
April 7, 1960.

Dear Sir:

I write to express my sincere thanks to the Committee for their patience and co-operation displayed during the presentation of my general commentary on our 1959 Annual Report, and the more detailed visual presentation of Charts and other material in analysis of our Capital and Operating Budgets and forecasts of intentions. The procedure followed this year was admittedly experimental in form and from the viewpoint of Management I can say it provided a satisfactory opportunity to inform members of the Committee about the current operations of the Railway and, as well display some yardsticks of performance so that an opinion might be formed about the accomplishments of the past and the planning for the future.

I sincerely hope that you and the members of the Committee found the presentation of some interest and if it is the wish for us to continue along this format next year, we will make certain improvements and refinements.

Respectfully submitted.

Yours sincerely,
(Sgd.) DONALD GORDON.

Honourable W. Earl Rowe, M.P.,
Chairman,
Session Committee on Railways, Air Lines and Shipping,
House of Commons,
Ottawa.

