



DATE DUE

<del>MAY 14 2009</del>			
<del>JUN 18 2009</del>			

CANADA. PARLIAMENT.  
HOUSE OF COMMONS.  
STANDING COMMITTEE ON  
RAILWAYS CANALS AND  
TELEGRAPH LINES.

HOUSE OF COMMONS

STANDING COMMITTEE ON  
RAILWAYS, CANALS AND  
TELEGRAPH LINES

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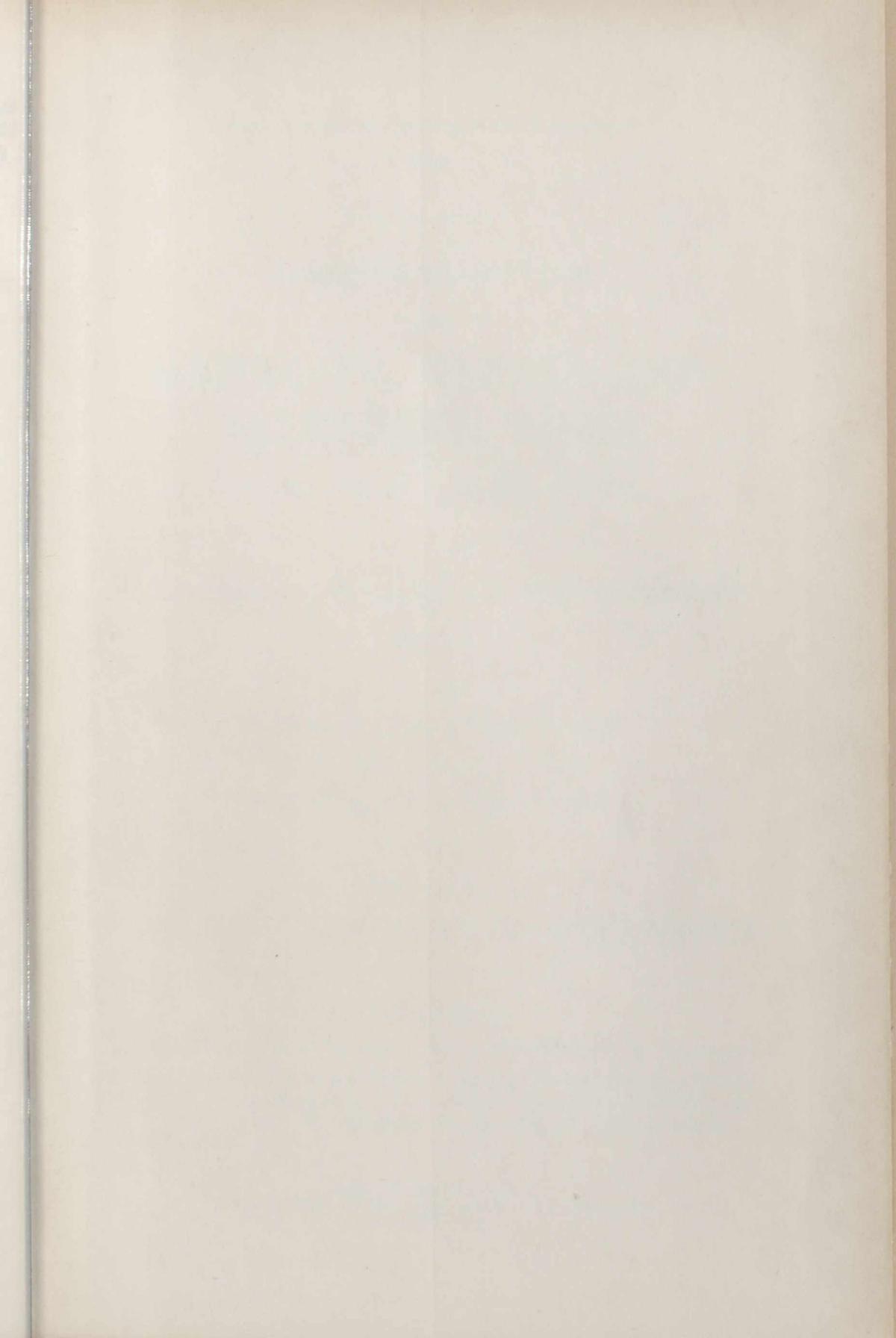


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HOUSE OF COMMONS

Second Session—Twenty-sixth Parliament

1964

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STANDING COMMITTEE

ON

**RAILWAYS, CANALS AND  
TELEGRAPH LINES**

*Chairman:* JEAN T. RICHARD, Esq.

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

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WEDNESDAY, JUNE 10, 1964

TUESDAY, JUNE 16, 1964

WEDNESDAY, JUNE 17, 1964

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Respecting

ANNUAL REPORT—CANADIAN NATIONAL RAILWAYS

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WITNESSES:

The Honourable John Whitney Pickersgill, Minister of Transport.

*From the Canadian National Railways:* Messrs. Donald Gordon, President;  
R. T. Vaughan, Secretary; J. L. Toole, Vice-President, Accounting  
and Finance; J. W. Demcoe, Vice-President, Transportation and  
Maintenance.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1964

STANDING COMMITTEE  
ON  
RAILWAYS, CANALS AND TELEGRAPH LINES

*Chairman:* Jean T. Richard, Esq.

*Vice-Chairman:* James Brown, Esq.

and Messrs.

Addison,	Foy,	Matte,
Armstrong,	Godin,	McBain,
<sup>5</sup> Asselin (Notre-Dame- de-Grâce),	Granger,	McNulty,
Balcer,	<sup>2</sup> Greene,	Millar,
Basford,	Guay,	Olson,
Beaulé,	Horner (Acadia),	Orlikow,
Béchar, d,	Howe (Wellington- Huron),	Pascoe,
<sup>7</sup> Bélanger,	Irvine,	Prittie,
Bell,	Kennedy,	Rapp,
Berger,	Kindt,	Regan,
Boulanger,	Korchinski,	Richard,
Cadiou (Meadow Lake),	Lachance,	<sup>3</sup> Rideout,
Cameron (Nanaimo- Cowichan-The Islands),	Lamb,	Rock,
Cantelon,	Laniel,	Ryan,
Cooper,	Latulippe,	Southam,
Cowan,	Lessard (Saint-Henri),	Stefanson,
Crossman,	<sup>4</sup> Macaluso,	Stenson,
Crouse,	MacEwan,	Tucker,
Émard,	Mackasey,	<sup>1</sup> Watson (Châteauguay- Huntingdon-Laprairie),
Fisher,	Marcoux,	<sup>6</sup> Willoughby—60.

(Quorum 12)

Maxime Guitard,  
*Clerk of the Committee.*

<sup>1</sup>Mr. Macdonald replaced Mr. Watson (Châteauguay-Huntingdon-Laprairie), on June 8, 1964.

<sup>2</sup>Mr. Brown replaced Mr. Greene, on June 8, 1964.

<sup>3</sup>Mr. Lloyd replaced Mr. Rideout, on June 8, 1964.

<sup>4</sup>Mr. Hahn replaced Mr. Macaluso, on June 8, 1964.

<sup>5</sup>Mr. Cantin replaced Mr. Asselin (Notre-Dame-de-Grâce), on June 8, 1964.

<sup>6</sup>Mr. Rhéaume replaced Mr. Willoughby, on June 11, 1964.

<sup>7</sup>Mr. Grégoire replaced Mr. Bélanger, on June 12, 1964.

ORDERS OF REFERENCE

FRIDAY, April 10, 1964.

Resolved,—That the following Members do compose the Standing Committee on Railways, Canals and Telegraph Lines:

Messrs.

Addison,	Foy,	Matte,
Armstrong,	Godin,	McBain,
Asselin (Notre-Dame- de-Grâce),	Granger,	McNulty,
Balcer,	Greene,	Millar,
Basford,	Guay,	Olson,
Beaulé,	Horner (Acadia),	Orlikow,
Béchar, d,	Howe (Wellington- Huron),	Pascoe,
Bélanger,	Irvine,	Prittie,
Bell,	Kennedy,	Rapp,
Berger,	Kindt,	Regan,
Boulanger,	Korchinski,	Richard,
Cadieu (Meadow Lake),	Lachance,	Rideout,
Cameron (Nanaimo- Cowichan-The Islands),	Lamb,	Rock,
Cantelon,	Laniel,	Ryan,
Cooper,	Latulippe,	Southam,
Cowan,	Lessard (Saint-Henri),	Stefanson,
Crossman,	Macaluso,	Stenson,
Crouse,	MacEwan,	Tucker,
Émard,	Mackasey,	Watson (Châteauguay- Huntingdon-Laprairie),
Fisher,	Marcoux,	Willoughby—60.

(Quorum 20)

WEDNESDAY, March 11, 1964.

Ordered,—That the said Committee be empowered to examine and inquire into all such matters and things as may be referred to it by the House; and to report from time to time its observations and opinions thereon, with power to send for persons, papers and records.

MONDAY, June 8, 1964.

Ordered,—That the names of Messrs. Macdonald, Brown, Lloyd, Hahn, and Cantin be substituted for those of Messrs. Watson (Châteauguay-Huntingdon-Laprairie), Greene, Rideout, Macaluso, and Asselin (Notre-Dame-de-Grâce) respectively on the Standing Committee on Railways, Canals and Telegraph Lines.

WEDNESDAY, June 10, 1964.

Ordered,—That the Standing Committee on Railways, Canals and Telegraph Lines be empowered to print such papers and evidence as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto; that it be given leave to sit while the House is sitting; and that its quorum be reduced from 20 to 12 members and that Standing Order 65(1)(b) be suspended in relation thereto.

WEDNESDAY, June 10, 1964.

*Ordered*,—That the Annual Reports of 1963 of the Canadian National Railways and of the Canadian National Railways Securities Trust, the Auditors' Report to Parliament for 1963 in respect of the Canadian National Railways, tabled on April 7, 1964, the Budget for 1964 of the Canadian National Railways, tabled on March 30, 1964, the Annual Report of Trans-Canada Air Lines for 1963, the Auditors' Report to Parliament for 1963 in respect of Trans-Canada Air Lines, tabled on March 6, 1964, and the Budget for 1964 of Trans-Canada Air Lines, tabled on February 28, 1964, be referred to the Standing Committee on Railways, Canals and Telegraph Lines.

THURSDAY, June 11, 1964.

*Ordered*,—That the name of Mr. Rhéaume be substituted for that of Mr. Willoughby on the Standing Committee on Railways, Canals and Telegraph Lines.

FRIDAY, June 12, 1964.

*Ordered*,—That the name of Mr. Grégoire be substituted for that of Mr. Bélanger on the Standing Committee on Railways, Canals and Telegraph Lines.

Attest.

LÉON-J. RAYMOND,  
*The Clerk of the House.*

REPORT TO THE HOUSE

WEDNESDAY, June 10, 1964.

The Standing Committee on Railways, Canals and Telegraph Lines has the honour to present the following as its:

FIRST REPORT

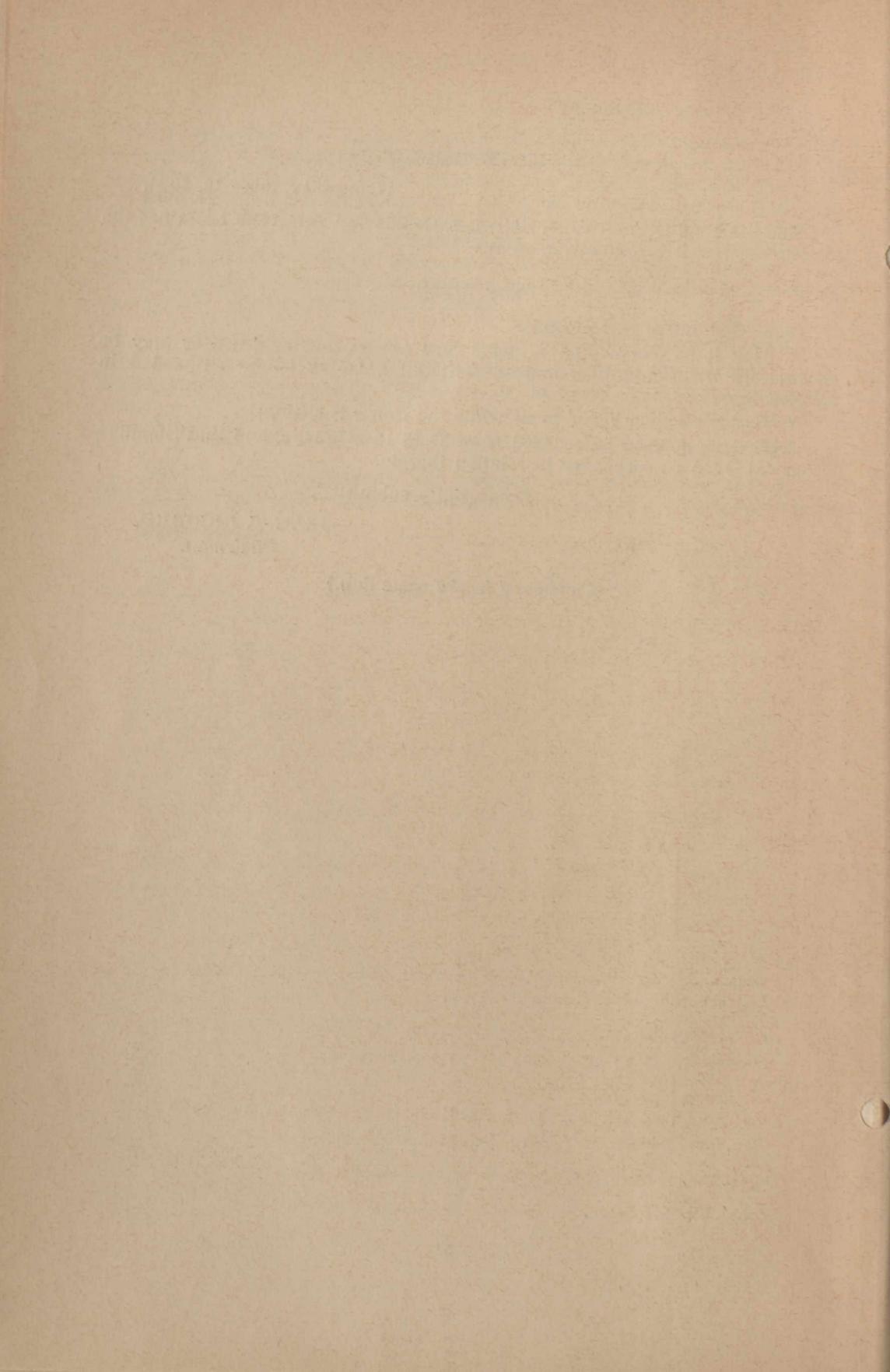
Your Committee recommends:

1. That it be empowered to print such papers and evidence as may be ordered by the Committee, and that Standing Order 66 be suspended in relation thereto;
2. That it be given leave to sit while the House is sitting;
3. That its quorum be reduced from 20 to 12 members, and that Standing Order 65(1)(b) be suspended in relation thereto.

Respectfully submitted,

JEAN-T. RICHARD,  
*Chairman.*

*(Concurred in the same day.)*



## MINUTES OF PROCEEDINGS

WEDNESDAY, June 10, 1964.

(1)

The Standing Committee on Railways, Canals and Telegraph Lines met at 9:37 o'clock a.m. this day, for organization purposes.

*Members present:* Messrs. Addison, Armstrong, Balcer, Bélanger, Berger, Cameron (*Nanaimo-Cowichan-The Islands*), Cantelon, Cantin, Cowan, Crossman, Crouse, Godin, Granger, Hahn, Howe (*Wellington-Huron*), Lamb, Laniel, Macdonald, Mackasey, Marcoux, Matte, McNulty, Millar, Pascoe, Prittie, Rapp, Richard, Rock, Stefenson, Willoughby—30.

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

Mr. Berger moved, seconded by Mr. Crossman,  
That Mr. Jean T. Richard be Chairman of this Committee.

Mr. Hahn moved, seconded by Mr. Prittie, that the nominations do now close.

There being no other nominations, the Clerk of the Committee declared Mr. Richard duly elected Chairman and invited him to take the Chair.

The Chairman thanked the Committee for the honour conferred on him.

Mr. Godin moved, seconded by Mr. McNulty,  
That Mr. Brown be Vice-Chairman of this Committee.

Mr. Mackasey moved, seconded by Mr. Laniel,  
That nominations do now close.

The Chairman declared Mr. Brown duly elected Vice-Chairman of this Committee.

On Motion of Mr. Howe (*Wellington-Huron*), seconded by Mr. Godin,  
*Resolved:*—That a Subcommittee on Agenda and Procedure be appointed by the Chairman after usual consultations with the whips of the different parties.

On motion of Mr. Macdonald, seconded by Mr. Rock,  
*Resolved:*—That the Committee be empowered to print such papers and evidence as may be ordered by the Committee.

On motion of Mr. Rock, seconded by Mr. Granger,  
*Resolved:*—That the Committee seek permission to sit while the House is sitting.

On motion of Mr. Prittie, seconded by Mr. Mackasey,  
*Resolved:*—That the quorum be reduced from 20 to 12 members.

At 9:50 o'clock a.m. Mr. Rock moved, seconded by Mr. Matte,  
That the Committee adjourn to the call of the Chair.

TUESDAY, June 16, 1964.

(2)

The Standing Committee on Railways, Canals and Telegraph Lines met at 10:02 o'clock this day. The Chairman, Mr. Jean T. Richard, presided.

*Members present:* Messrs. Addison, Balcer, Béchard, Berger, Brown, Cadieu, Cantelon, Cantin, Cowan, Crossman, Fisher, Godin, Granger, Grégoire, Hahn, Horner (*Acadia*), Howe (*Wellington-Huron*), Kindt, Korchinski, Lamb, Lloyd, Lessard (*Saint-Henri*), Macdonald, MacEwan, Mackasey, Matte, McBain, McNulty, Pascoe, Prittie, Rapp, Regan, Rhéaume, Richard, Rock, Southam, Stefanson—37.

*Also present:* The Honourable John Whitney Pickersgill, Minister of Transport.

*In attendance:* From Canadian National Railways: Messrs Donald Gordon, President, R. T. Vaughan, Secretary, J. L. Toole, Vice-President of Accounting and Finance, J. W. Demcoe, Vice-President, Transportation and Maintenance.

The Chairman opened the meeting.

On motion of Mr. Lessard (*Saint-Henri*), seconded by Mr. Grégoire,

*Resolved:*—That the Committee print 850 copies in English and 400 copies in French of its Minutes of Proceedings and Evidence.

Mr. Grégoire moved, seconded by Mr. Addison,

That the Committee do not sit while the House is sitting on the flag issue.

After debate thereon, the question being put on the said motion, it was, by a show of hands, negatived; Yeas: 12, Nays: 15.

The Chairman instructed the Clerk of the Committee to read the Order of Reference.

The Chairman welcomed the officials of the Canadian National Railways and in particular Mr. Donald Gordon, President, whom he invited to read the 1963 Canadian National Railways Annual Report. Then the Committee proceeded to consider this Report, section by section.

And the examination of the witnesses continuing on the first section intitled "Financial Review", at 12:27 o'clock p.m. the Committee adjourned until 4:00 o'clock p.m. this afternoon.

## AFTERNOON SITTING

(3)

The Standing Committee on Railways, Canals and Telegraph Lines reconvened at 4:06 o'clock p.m. this afternoon. The Chairman, Mr. Jean T. Richard, presided.

*Members present:* Messrs. Armstrong, Beaulé, Béchard, Brown, Cadieu, Cantelon, Cantin, Cooper, Crouse, Énard, Fisher, Granger, Grégoire, Horner (*Acadia*), Howe (*Wellington-Huron*), Kindt, Korchinski, Lachance, Lloyd, Lessard (*Saint-Henri*), Macdonald, MacEwan, Matte, McNulty, Pascoe, Prittie, Rapp, Regan, Rhéaume, Richard, Ryan, Southam, Stefanson, Stenson (34).

*Also present:* The Honourable John Whitney Pickersgill, Minister of Transport.

*In attendance:* The same as at this morning's sitting.

The Committee resumed consideration of section intituled "Financial Review" of the 1963 Canadian National Railways Annual Report.

And the examination of the witnesses continuing, at 5:55 o'clock p.m. the Committee adjourned until 8:00 o'clock p.m. this evening.

#### EVENING SITTING

(4)

The Standing Committee on Railways, Canals and Telegraph Lines reconvened at 8:16 o'clock p.m. this evening. The Chairman, Mr. Jean T. Richard, presided.

*Members present:* Messrs. Beaulé, Brown, Cantin, Cooper, Émard, Fisher, Granger, Horner (*Acadia*), Howe (*Wellington-Huron*), Korchinski, Lachance, Lloyd, Macdonald, MacEwan, Pascoe, Prittie, Richard, Southam, Stenson (19).

*In attendance:* The same as at this morning's and afternoon's sittings.

The Committee resumed consideration of section intituled "Financial Review" of the 1963 Canadian National Railways Annual Report.

On Motion of Mr. Prittie, seconded by Mr. Fisher,

*Resolved:*—That the section intituled "Financial Review" of the 1963 Canadian National Railways Annual Report be adopted as read.

At 9:50 o'clock p.m. the Committee adjourned until tomorrow at 3:30 o'clock p.m.

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WEDNESDAY, June 17, 1964.

(5)

The Standing Committee on Railways, Canals and Telegraph Lines met at 3:42 o'clock p.m. this afternoon. The Chairman, Mr. Jean T. Richard, presided.

*Members present:* Messrs. Beaulé, Brown, Cadieu, Cantin, Cooper, Cowan, Crossman, Crouse, Émard, Fisher, Granger, Grégoire, Horner (*Acadia*), Howe (*Wellington-Huron*), Irvine, Kennedy, Korchinski, Lloyd, Macdonald, MacEwan, Mackasey, Marcoux, Matte, McNulty, Millar, Pascoe, Prittie, Rheaume, Richard, Rock, Southam, Stenson (32).

*In attendance:* From the *Canadian National Railways*: Messrs. Donald Gordon, President, R. T. Vaughan, Secretary, J. L. Toole, Vice-President, Accounting and Finance, J. W. Demcoe, Vice-President, Transportation and Maintenance.

The Committee resumed consideration of the section intituled "Development" of the 1963 Canadian National Railways Annual Report.

By unanimous consent, the witness, Mr. Gordon, was granted permission to have printed as appendices to today's Minutes of Proceedings and Evidence; the following documents:

"Grain on the Move"

"Canadian National Railways Proposed Line Abandonment—Example Subdivision Prairie Region"

The Committee agreed unanimously, that the section intituled "Development" of the 1963 Canadian National Railways Annual Report be adopted as read.

And the examination of the witnesses continuing, at 5:52 o'clock p.m. the Committee adjourned until 10:00 o'clock a.m. tomorrow morning.

Maxime Guitard,  
*Clerk of the Committee.*

*(See Appendices A and B to this day's Minutes of Proceedings).*

## APPENDIX A

## "GRAIN ON THE MOVE"

An address by Donald Gordon, C.M.G., Chairman and President, Canadian National Railways, to the Canadian Club, Winnipeg, Manitoba  
September 26, 1962

If it were not for the fact that I can look back over a period filled with action, I would find it hard to believe that six years have passed since I last visited your Club to speak about the railroad industry and to give you a report on progress by Canadian National Railways. Consequently, while I begrudge the swift passage of time, I must accept it as a necessary ingredient of progress and regret only that I have not found it possible to meet more frequently with you to keep in repair the many friendships and business associations that have so long been available to me in the friendly city of Winnipeg.

The opening of our new Symington Yard here yesterday is symbolic of the many changes that have taken place in Manitoba and across the CN System since I addressed your Club in 1956. In this city where East meets West, the yard has been well named after Herbert J. Symington, who, as a young man, arrived here for a visit and remained for twenty-three years to become a prominent Winnipeg lawyer before moving East, where he served as a Director of Canadian National for twenty years. His outstanding contributions to the transportation industry on land and in the air, and to the public interest of Canada, rate him as one of the great Canadians of his generation.

This push-button electronic hump yard, the third of its kind to be completed in Canada by Canadian National, permits us to service, sort and send out up to 6,000 freight cars a day and equips us to provide faster rail shipments to, from and through the West. In addition to the construction of Symington Yard, one of the most advanced marshalling yards in the world, we have completed recently at Transcona a three-year program of shop consolidation and modernization, resulting in greatly improved and streamlined operations in our motive power and car shops that have served Western Canada for half a century.

Just before I last spoke to your Club, Canadian National had completed construction of a 144-mile rail line to Lynn Lake. Since that time—including the new track mileage to Lynn Lake and upon completion of an eight-mile CN railway extension to Stall Lake to serve the Hudson Bay Mining and Smelting Company's new property there—Canadian National will have driven about 240 miles of new track into Manitoba's northern frontiers in a period of less than ten years. We have laid probably more new track in recent years than any other railroad in North America.

Rail resource lines constructed in Western Canada include a 46-mile line to the great aluminum development at Kitimat, B.C., completed in 1955; a 32-mile line to INCO's new nickel find at the new townsite of Thompson, completed in 1957; a 52-mile branch line to the Hudson Bay Smelting Company's mine at Chisel Lake, completed in 1960; and a 23-mile line currently under construction from Whitecourt to the Pan American Petroleum Corporation's plant at Windfall, Alberta.

Last month we began laying track on the 430-mile Great Slave Lake Railway, designed to move to market the long known lead and zinc resources located at Pine Point near Great Slave Lake in the Northwest Territories, and at the same time open up for development agricultural and other natural resources in the area.

The important factor about these CN-built resource railroads is that they aid the greater industrial and economic diversification of Western Canada. And the same is true of the many new rail facilities also constructed or under way for a similar purpose in Eastern Canada. When all are completed, the cost of branch lines built by Canadian National to serve resource industries across Canada since World War II will amount to nearly \$200 million.

These developments may not seem exciting when one considers the recent feats of men and machines in the new Space Age. However, before we look to new horizons in space, Canadians have many problems to resolve in the management and development of their heritage in acreage and resources right here on earth. Canadians are faced urgently with the need to develop their latent talents, their energies and their skills if our people are to be kept in gainful employment and rewarded with an acceptable standard of living. This need must be viewed against the background of an increasingly competitive trading world, where new techniques and radical rearrangements of political alignments—actual and potential—affecting our traditional and most important customers, pose a challenge that we dare not ignore. Our prosperity, nay our very existence, as a free and prosperous nation is dependent on how we use the resources we are blessed with and, also, the qualities of mind and spirit that we bring to the challenging task of finding our rightful place in this world of cataclysmic change.

It has been said that fools rush in where angels fear to tread, an adage you may well say I should keep in mind when I presume to speak about the history of grain handling and contemporary practices in the City of Winnipeg, where I should expect to meet an audience of experts. However, I wish to provoke discussion on this subject because I believe it is so important to the national interest that it overcomes my ingrained diffidence about appearing as a special pleader in a field where others have a better claim to expert knowledge.

Since the days when the "Iron Horse" first established a communication system between Canada's early and remote settlements, and so made Confederation possible, all of the physical resources that our country has had to manage were—until very recently—inevitably linked with the nation's railways. Nowhere has this been more true than in Western Canada.

Today it is hard to realize that the fur trade was the primary industry of this area less than one hundred years ago, and remained largely so until the arrival of the railways. It is, in fact, less than one hundred years since the Hudson's Bay Company surrendered its territorial rights over Rupert's Land. There are actually many people alive today who lived when the first wheat moved out of the Prairies—only eighty-six years ago! The pace of change is ironically emphasized by the fact that this first shipment consisted of seed grain to improve the quality of the Ontario crop in an age when wheat was the primary product of that province, and Toronto the grain capital of Canada!

That first movement of wheat from this city occurred on October 12, 1876, or two years before the arrival of the first railway in the Winnipeg area, which was to link this city with St. Paul, Minnesota. The shipment, according to the records, consisted of 857-and- $\frac{1}{4}$ th bushels of wheat, valued at 85 cents a bushel. It was transported by the stern-wheeler "City of Selkirk" down the Red River to Fisher's Landing, Minnesota. From there it went by rail to Duluth, by water again to Sarnia, and once more by rail to Toronto. The first export shipment of wheat from Western Canada was made two years later, in 1878, to Glasgow.

Those eventful years were followed by a period when the railways became the dominant factor in our economic growth, and played an equally important role in the political life of that era. Everywhere there was a sudden

compulsion to occupy the West: rail lines struck forth in every direction, followed by farmers from Ontario and Quebec, and immigrants from Britain and Europe to colonize this new land. Throughout the "Gay Nineties" and until the outbreak of world war in 1914, there evolved in Western Canada a grain handling system based on the country elevator and rail transportation, which was acclaimed the best collection system to be found anywhere in the world.

Railway construction and grain production proceeded hand-in-hand at an unprecedented pace until, by 1914, there was a total of 11,710 miles of new track laid throughout the three Prairie Provinces. The Western grain trade had become firmly established in world markets—and wheat reigned supreme as Canada's major export, based, of course, on Manitoba's "No. 1 Hard".

Yet, despite the fact that there have been many radical and fundamental changes in Western Canada's economy since those explosive years, the system of grain handling established before the first World War—the collection, storage and transport of the Prairie grain crop—has changed very little.

Methods for handling the Prairie grain crop were established in a period when roads were very poor and, in many places, consisted only of Prairie trails. The movement of grain from the farm to the country elevator was by team and wagon, and the railway had a virtual monopoly of land transportation not only because it was the cheapest available means, but also in most instances, the only means available. Since that time, modern highway networks have been established and roads of every description vastly improved. There are today about 21,000 miles of good highways throughout the three Prairie provinces, and this figure does not take into account many more thousands of miles of municipal and market roads.

The highway truck has been perfected so that its operating costs have greatly decreased. At the same time the costs of maintaining and operating railway branch lines have increased, largely because the variety and the total volume of traffic carried has declined with increased trucking, the result being that on many branch lines the only remaining traffic is grain. Built when the country was young, many of these smaller lines have outlived their usefulness, now that both truck and automobile have been placed in universal use.

The increase in the use of the motor truck on farms in the three Prairie provinces is dramatically illustrated by figures recently released by the Dominion Bureau of Statistics. According to 1961 census figures, the number of motor trucks on Prairie farms has increased by approximately two-thirds, or by 64 per cent, in only ten years. Automobiles on Prairie farms during that same period, 1951 to 1961, increased by only 8 per cent. Grain combines increased by 61 per cent and tractors by 23 per cent, and these have helped, no doubt, to facilitate more efficient production.

Many of the existing country elevators are now well below the optimum size for the best economic costs of operation and also for the most economic cost of trans-shipment by railways.

Today on a thin-density railway branch line—that is to say, a line that carries almost entirely grain and where the total volume originated is about 1,000 cars for a 60 to 70-mile line over the course of a year—it can cost the railway ten to fifteen cents or more per ton mile to carry grain to the main line, whereas truck costs for the same movement are in the range of four to eight cents per ton mile—or only half the cost. Most farmers today, because of the greater mobility provided by the truck, can deliver as much grain to an elevator in one day as they could in one week when they used team and wagon and they often now voluntarily haul their grain longer distances.

There are actually three basic cost factors involved in the grain handling system, to which we should look to trim handling expenses and increase efficiency. First, the cost to the individual farmer in moving his grain to the country elevator varies because of distance. If an integrated trucking system

3 could be devised between farm and main-line elevators, this cost could be equalized and, as well, produce savings in those over-all handling costs which are pooled. The second factor involves the economies that can be obtained through a program of elevator consolidation that would eliminate those existing elevators that are operating well below the size required to ensure lowest cost operation. The Royal Commission on Transportation, commonly known as the "MacPherson Commission" in honour of its distinguished chairman, has pointed out that operating costs per bushel decrease considerably as the size of elevators increase to provide certain optimum storage space. Finally, there are economies to be obtained by the railways, whose traditional job has been to serve the farmer, elevator owners and the Wheat Board by providing transportation for piecemeal shipments to grain terminals from widely scattered country elevators. Obviously such transportation on thin-density branch lines is costly, thus elevator consolidation on main lines would enable the railway to pick up more cars at one time and reduce transportation and switching costs. And all of this must be considered against the basic fact that a new West has been born—as unlike the old West as the new CNR is unlike its old predecessor lines of that earlier day.

The very nature of Western Canada's economy has changed radically. In Manitoba, both manufacturing and construction trebled after the last war and, by the late fifties, together represented about two-thirds of the total value of physical production. There has been a tremendous growth of mixed farming and processing. Livestock breeding, feeding and finishing have become an important part of Western farm activities, with cattle production increasing every year and quality improving all the time. Here in Manitoba, meat packing has become your largest single production industry, while all manufacturing accounts for nearly 45 per cent of the total net value of provincial production. In Alberta, oil has become the province's major resource industry since the Leduc find in 1947. Mineral exploration and production is expanding every year on the northern frontiers of all three Prairie provinces. Even in Saskatchewan, where wheat production remains the major concern of nearly 80 per cent of the farmers, the province has increased steadily as a producer of non-metallic minerals, such as potash and sodium sulphate. There has also been recent discovery and development of oil and natural gas resources in southern Saskatchewan where oil refining capacity has more than trebled since the last war. The vast irrigation and hydro-electric power development on the South Saskatchewan River promises cheaper power and therefore the means for establishing a broader industrial base in that province.

To keep the new West in perspective, it is important that the nation's railway network should reflect these social and economic changes of recent years and, in doing so, hold transportation costs at a minimum. For in Canada the cost of transportation continues to be an important element in the production costs of our exports which, as you all know, must meet new and more competitive offerings that challenge price, quality, variety and even sales techniques. Nevertheless, in underlining many of the changes which have considerably altered the Prairie economy in recent years, I by no means underestimate the continued value of the West's grain production to our export trade, which contributes so strongly to Canada's position as the world's fifth largest trading nation.

In launching a plan of attack to improve the efficiency and reduce the costs of our grain handling system, it would be essential to look at the over-all system and not merely at each individual part. If each party—that is to say, the growers, the elevator owners, the railways or governments—were to go ahead and make a separate analysis to improve its own cost and method efficiency, the outcome would not necessarily benefit the nation. I believe that the objective of all interested parties should be a program that is good for the nation as a whole—particularly at this critical and increasingly competitive period in our

economic history—and not simply a program that serves each party's short-range activities. The best method of attack appears to be a co-ordinated program on which all parties are prepared to compromise to reach agreement.

In terms of the operational research worker, what is required is a "systems analysis" to determine how a grain gathering and handling system can best be adapted to present and predictable technological changes, taking as its point of departure the historically oriented facilities that exist today and with which we are all familiar. This approach is essential, since it is understandable, and quite in keeping with human nature, that each party involved in the system could attempt to reach an optimum position with regard *only* to the costs or methods with which each is directly concerned—or what the mathematicians and management scientists would call "suboptimization".

By way of an illustration of this rather fearsome sounding word, it will do here to give an example of one part of the collective system—say Canadian National Railways—reducing its operational costs without regard to the impact of its actions on others. Certainly without an over-all plan, or a common objective established in the national interest, Canadian National, as any other business, can only strive as best it can to reduce its own costs and increase its own efficiency even though its action, in isolation, may actually increase individual costs to some farmers or elevator interests. Worse still, isolated or selfish action could well result in a failure to take advantage of each and every type of available method of collecting, transporting and storing grain, thus foregoing economies that could come from large scale co-ordination.

Delay in implementing a better system comes not so much from resistance to change as from want of a framework that ought to be drawn up by the many agencies historically involved in the collection and marketing of the grain crop, and—as I have said—the need for agreement upon an over-all plan. The formulation of a master plan appears to be the job of no *one* authority or agency and, as is so often the situation in human affairs, what is everybody's job becomes nobody's job!

For the purpose of illustration, let me return for a moment to enlarge upon just a few of the questions that arise in the railway industry which need to be taken into account in any over-all plan. There is the fact that delivery quotas for grain vary with storage space available at country elevators, which in turn is affected by terminal accommodation at the Lakehead, the West Coast and Churchill, and by foreign demand. Insufficient capacity at country elevators in a given area creates a situation whereby the Wheat Board, under existing legislation, is faced with the problem of equalizing as fairly as possible by quota the opportunity of farmers in that area to market their grain. Uneconomic rail transportation of the grain almost always results. The railways' difficulties arise from the need of the Wheat Board to create storage capacity in as many country elevators as possible at one time and to ship out of these elevators only such quantities and grades as may be required to afford equality of marketing opportunity to farmers being served by the elevators in question. Expensive shipping costs per carload result. Also, under the present system, it is impossible to predict peak carryings, with the further result that the railways are apt to be tied up with a big investment in idle rolling stock.

Some years ago, rail movement was patterned after the harvest months, when the greatest movements of grain took place in the months of August, September and October, and in marshalling its rolling stock accordingly, the railway's problem then was to provide the equipment necessary to handle the heavy concentration of traffic. An analysis of the period 1951 to 1959, when substantial crops were produced as a result of favourable weather and improved farming methods, shows that in spite of generally favourable world demand, production was substantially higher than this demand and this resulted in large surpluses, making it impossible to predict the pattern of demand for box

cars. During that eight-year period there was a completely haphazard demand for transportation. Only in one year during that period did the peak demand for transportation fall in October: in three of those years, July was the peak month; in two years, May was the peak, and in one year each, June and December were the peak months. These are all questions of practical railway operations and their costs and—coupled with them—the need for a program of co-ordination among all the railways concerned in the discontinuance of uneconomic services.

Apart from these direct railway operational questions is the problem concerning the capital that has been sunk into country elevators—I realize that this is an exceedingly serious problem for the elevator system, including the Pools, United Grain Growers, and the privately and publicly owned elevator companies. The MacPherson Report, in an appendix in the second volume, has made a number of suggestions on this point, including the use of tax incentives and capital cost allowances, to lessen the impact of abandonment on investment tied to rail transport.

In summary, it appears quite clear to me that improved technology and methods already available, if co-ordinated in the national interest, could improve substantially the efficiency of our traditional grain handling facilities in all their aspects. Moreover, research into new techniques and innovations needs sponsorship to ensure that all predictable changes are fully exploited in determining the most sensible course of action. The whole situation is a complex one and is typical of the sort of problem that should be tackled with a systems analysis such as I have suggested.

For the fact is that while improved technology exists or is in the making, and improved methods are entirely feasible, the division of responsibility is such that *action is required* in the form of legislation, financial accommodations, willingness to surrender vested interests and many other practical recognitions. It seems to me that in our democratic system these matters can only be reconciled by voluntary agreement among the many interests involved and, particularly, among those agencies and organizations directly concerned with the collection and marketing of our grain crop—still one of Canada's primary export commodities. It is easy to recoil from the complexities involved, to drift along with the status quo, and to bolster it by subsidies and other methods of assistance. But, I predict that if we do so, our chickens will come home to roost one day and the eventual reckoning will be more costly and more difficult. As a first step it is worthwhile trying to draft a master plan which will outline objectively the facts and the remedies required, and even if it cannot be implemented overnight, it should be possible to blaze the trail towards an agreed objective. The longer a realistic plan is delayed, the more likely it is that each party will be forced to act in its own interests and, as I have already said, fall into the trap of "suboptimization", and therefore not serve the true national interest.

Experience has taught me that vested interest is a jealous guardian and, when complicated by conflicting jurisdictions, it tends towards the extreme in the protection of entrenched positions. But if the broad public interest is to be served for the ultimate benefit of all Canada, then each part of the complex I have described will have to make some concession or compromise to allow first the formulation of a plan, and then the implementation of it, so as to provide an up-to-date and efficient system. I hope that by exposing frankly the need for co-ordinated action I have made some personal contribution towards this end.

## APPENDIX B

## CANADIAN NATIONAL RAILWAYS

Proposed Line Abandonment—Example Subdivision  
Prairie Region

From Fictitious (Mile 0.0) to Invention (Mile 60.0)  
Distance—60.0 miles

## 1. GENERAL

- (a) The line from Fictitious to Invention, Saskatchewan, was built by the Western Extension Railway Company in March, 1903, under authority of Province of Saskatchewan, Act 3, Ed. VII, Chapter 67. Under authority of Act 4, Ed. IX, Chapter 5, Dominion of Canada, passed June 25, 1903, the Western Extension Railway Company entered into an agreement of September 28, 1903, to amalgamate with the Canadian Northern Railway Company. This was confirmed by Order-in-Council issued October 12, 1903, and became effective October 23, 1903.

The Canadian Northern Railway Company became part of the Canadian National in 1923.

- (b) The line serves seven settlements, Ponteix, East Dollard, Eston, Kerrobert, Wilkie, Luseland and Invention. Ponteix and East Dollard each have populations of approximately 600, while the other five settlements each have an average of 150 residents. The rural residents are grain farmers. There are no industries located along the line.
- (c) The territory is traversed by a number of good all-weather roads connecting the principal towns and villages. A gravel highway, No. 52, parallels the line over its entire length, at an average distance of six miles.

## 2. CONDITION OF RAILWAY

The condition of this branch line is poor, maintenance expenditures having been held to a minimum. The rail is light averaging 80-85 pounds per yard. Thirty per cent of the ties are treated and are in good condition, the balance, being untreated and 15 years old, are in extremely poor condition. The entire line was originally ballasted with pit run gravel, but this has long since become fouled and is now practically non-existent. A more detailed examination of the condition of this line is found in Exhibit V.

## 3. TRAIN SERVICE

Mixed trains Nos. 583 and 584 operate on a weekly basis, running from Kipling to Fictitious to Invention on Wednesday and from Invention to Fictitious to Kipling on Thursday. Extra trains operated 15 round trips during the year.

After abandonment of this line, five alternate shipping points, as shown on Exhibit VII, will be available on the C. N. Winnipeg-Regina line. The train service is provided by two daily freights operating in each direction.

#### 4. HIGHWAY SERVICE

The towns are well served by commercial trucks as follows:

Station	Trucker	License
Ponteix	John White	GF-STL
	T. C. Jones	GF-LS-STL
East Dollard	John White	GF-STL
	T. C. Jones	GF-LS-STL
Eston	T. C. Jones	GF-LS-STL
Kerrobot	T. C. Jones	GF-LS-STL
Wilkie	John White	GF-STL
Luseland	John White	GF-STL
Invention	T. C. Jones	GF-LS-STL

GF—General Freight

STL—Single Trip Load

LS—Live Stock

There is no bus service in the area. The farmers, on the average, operate a half ton pick-up and a two ton dump-truck for grain deliveries, and a private automobile.

#### 5. TRAFFIC

Inbound traffic consisted of 45 cars of coal, 60 cars of petroleum products, 7 cars of forest products, 5 cars of machinery, 2 cars of fertilizer, and 1 car of cement, while outbound traffic consisted of 600 cars of grain. Express, LCL and Passenger traffic accounted for only  $\frac{1}{6}$ th of the total revenues and therefore should not form a major basis in considering whether abandonment should be granted or not.

The savings to the railroad in the event of abandonment, are actually different than those stated on Exhibit I, as it is certain that some of the traffic will be retained after abandonment of this line. The actual economics are not presented as a time-consuming exhaustive study would have to be done to determine changed shipping trends, volume of traffic retained, revenues and costs.

#### 6. EFFECT ON RAILROAD EMPLOYEES

The abandonment of this line would mean the displacement of eight maintenance-of-way employees. These would be absorbed according to seniority. Although the railroad is considering possible abandonment of many railroads through the country, there will be no major displacement of employees as a policy of orderly retrenchment will be followed whereby physical abandonment will take place over a number of years.

#### 7. IMPENDING CAPITAL EXPENDITURES

If this line is to be kept in service indefinitely, capital expenditures of \$450,000 will have to be made. A new trestle is needed at mile 31.2 (\$30,000), 7.5% of the ties will have to be replaced (\$300,000), and the line will have to be ballasted over its entire length (\$120,000). The railway could continue to operate this line for at most two years, foregoing these capital costs, by utilizing temporary maintenance measures.

#### 8. OPERATING RESULTS

The carload traffic by commodities for the stations on this subdivision and the total system revenues from freight express and passenger services for the year are shown on Exhibit II. Exhibit III shows carload movements by

months. A statement of less-than-carload traffic, by system revenues and tonnage, is shown on Exhibit IV. A statement of operating results on a system basis is shown on Exhibit V. A summary of these exhibits is as follows:

Gross Revenues .....	\$153,229
Total Cost of Operation and Other Expenses .....	362,324
Annual Long Term Financial Betterment if Line Abandoned .....	209,095
Capitalized Value of Annual Betterment at 6.21% .....	<u>\$3,367,069</u>

## EXHIBIT I

CANADIAN NATIONAL RAILWAYS  
SASKATCHEWAN AREA — PRAIRIE REGION

PROPOSED ABANDONMENT OF THE EXAMPLE SUBDIVISION FROM FICTITIOUS  
(MP. 0.0) TO INVENTION (MP. 60.0)

Year 1960.

Statement No. 1

SUMMARY OF REVENUES AND EXPENSES

SYSTEM REVENUES

Freight—Carload.....	\$ 142,429
Freight—L.C.L.....	2,600
Express.....	5,200
Passenger.....	3,000
Communications.....	
Miscellaneous.....	
Total Revenues.....	<u>\$ 153,229</u>

SYSTEMS EXPENSES (Variable with Traffic)..... \$ 173,015

REVENUE AVAILABLE FOR FIXED ON LINE EXPENSES..... \$19,786 (d)

FIXED ON LINE EXPENSES

Average Annual Maintenance.....	\$ 90,316
Average Annual Depreciation.....	35,160
Total Way and Structures.....	<u>\$ 125,476</u>
Station Expenses.....	10,494
Taxes.....	6,000
Total Fixed on Line Expenses.....	<u>\$141,970</u>

ANNUAL OUT-OF-POCKET LOSS..... \$ 161,756

ANNUAL GROSS SALVAGE VALUE

Gross Salvage Value.....	\$ 224,600
Annual Savings: (6.21% of Gross Salvage Value).....	<u>\$ 13,948</u>

ANNUAL FINANCIAL IMPROVEMENT..... \$ 175,704

LONG TERM CAPITAL SAVINGS

Gross Replacement Cost.....	\$ 1,300,000
Less Gross Salvage Value.....	224,600
Net Replacement Cost.....	\$ 1,075,400
Annual Savings: (6.21% of Average Net Replacement Cost).....	<u>\$ 33,391</u>

ANNUAL LONG TERM BETTERMENT..... \$ 209,095

(d) deficit.

CANADIAN NATIONAL RAILWAYS  
SASKATCHEWAN AREA—PRAIRIE REGION  
PROPOSED ABANDONMENT OF THE EXAMPLE SUBDIVISION  
FROM FICTITIOUS (MP. 0.0) TO INVENTION (MP. 60.0)  
Year 1960.

*Statement No. 1*

C.N.R. SYSTEM REVENUES, TONS, AND CARLOADS BY COMMODITIES

Stations	C.N.R. System Revenues					Carload Traffic				
	Pass.	Freight	Exp.	Misc.	TOTAL	Commodities	Cars		Tons	
	\$	\$	\$	\$	\$		In	Out	In	Out
Ponteix.....	900	142,429	2,700	—	146,029	Coal.....	45	—		
						Petroleum.....	60	—		
						Forest Prods.....	7	—		
						Machinery.....	5	—		
						Fertilizer.....	2	—		
						Cement.....	1	—		
						Grain.....	—	600		
Invention.....	600	2,600	2,500	—	5,700		120	600	3,521	32,400
TOTAL.....	1,500	145,029	5,200	—	151,729		120	600	3,521	32,400
Not traced to Stations										
Mail Leases Inward Pass.....	1,500				1,500					
GRAND TOTAL....	3,000	145,029	5,200		153,229		120	600	3,521	32,400
Deduct Duplication										
SYSTEM TOTAL.....	3,000	145,029	5,200		153,229		120	600	3,521	32,400

CANADIAN NATIONAL RAILWAYS  
SASKATCHEWAN AREA — PRAIRIE REGIONPROPOSED ABANDONMENT OF THE EXAMPLE SUBDIVISION FROM FICTITIOUS  
(MP. 0.0) TO INVENTION (MP. 60.0)

Year 1960.

Statement No. 1

## CARLOAD MOVEMENTS BY MONTHS

Stations		Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Total
Ponteix.....	In	11	9	10	9	10	9	11	11	9	11	9	11	120
	Out	—	—	—	—	—	—	—	102	120	120	120	120	600
	In													
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CANADIAN NATIONAL RAILWAYS  
SASKATCHEWAN AREA—PRAIRIE REGION

PROPOSED ABANDONMENT OF THE EXAMPLE SUBDIVISION FROM FICTITIOUS  
(MP. 0.0) TO INVENTION (MP. 60.0)

Year 1960.

*Statement No. 1*

LESS CARLOAD TRAFFIC

Tonnage and C.N.R. System Revenue based on three month sample for year 1960

Stations	Inwards		Outwards	
	Tons	System Revenue	Tons	System Revenue
Invention.....	50	\$ 2,600	—	\$ —
TOTALS.....	50	2,600		
TOTAL REVENUE.....		2,600		

## CANADIAN NATIONAL RAILWAYS

## SASKATCHEWAN AREA—PRAIRIE REGION

PROPOSED ABANDONMENT OF THE EXAMPLE SUBDIVISION FROM FICTITIOUS  
(MP. 0.0) TO INVENTION (MP. 60.0)

Year 1960.

## Statement No. 1

## ANALYSIS OF VARIABLE EXPENSES

Cost Category	Uniform Classification of Accounts	Amount
		\$
Passenger Car Expenses.....	Maintenance (317)..... Cleaning and Supplies (402)..... Depreciation (331).....	3,622.45
S.D. & P.C. Department.....	Sleeping, Dining & Parlour Car (403 & 411).....	—
Freight Car Expenses.....	Maintenance (314)..... Lubrication (402)..... Depreciation (331).....	31,006.93
Train Mile.....	Train Control (249, 372, 404)..... Train—Other Expenses (402)..... Water and Fuel Stations (231).....	8,729.22
Diesel Unit Mile.....	Loco.—Maintenance (311A)..... Loco.—Depreciation (331).....	15,233.87
Yard Switching.....	Yard Switching (262 to 281, 302 to 338, 377 to 389).....	19,959.78
Gross Ton Mile.....	Road Maintenance (202, 08, 12, 14, 16 & 18)..... Road Depreciation (266).....	12,454.97
Diesel Unit Dispatch.....	Engine House Expense (398, 400)..... Train Loco. Supplies.....	2,153.47
Station & Car Distribution Expenses	Train Control (249, 372, 404)..... Station Expense (373, 376).....	1,312.71
Crew Wages.....	Crew Wages (392, 401).....	28,189.72
Fuel.....	Fuel (394).....	4,026.85
Grain Doors.....	Grain Doors (402).....	5,971.32
Superintendence.....	Superintendence (201, 301, 371).....	9,883.92
Traffic, General and Communications	Traffic, General and (247, 351 to 358, 407)..... Communications (451 to 458).....	8,326.39
Cost of Money.....	Cost of Money.....	16,490.61
LCL & Express—Handling...	LCL & Express—Handling (373, 376, 470 to 475).....	5,653.38
Joint Facilities.....	Joint Facility Expenses (278, 461, 465).....	
Ferry Service.....	Operating Vessels (323, 408).....	
<b>TOTAL VARIABLE COST.....</b>		<b>173,015.59</b>

NOTE:—Figures shown in brackets refer to Uniform Classification Account Number.

CANADIAN NATIONAL RAILWAYS  
SASKATCHEWAN AREA — PRAIRIE REGION  
PROPOSED ABANDONMENT OF THE EXAMPLE SUBDIVISION FROM  
FICTITIOUS (MP. 0.0) TO INVENTION (MP. 60.0)

Year 1960.

Statement No. 1

PHYSICAL STATISTICS

Miles of Track-Line.....			60.0
	Length	Condition	Age
Miles of Rail			
-80#.....	20	poor	57 Yrs.
-85#.....	40	poor	57 Yrs.
	Number	Condition	Age
Ties			
-Treated.....	50,000	Good	15 Yrs.
-Not Treated.....	110,000	Poor	33 Yrs.
		Condition	Age
Ballast—Pit Run Gravel.....		Poor	57 Yrs.
	Number	Condition	Age
Culverts—Concrete.....	35	Poor	57 Yrs.
			Number
Highway Crossings—Level.....			5
	Location	Condition	Age
Bridges.....	M. 50.6	Poor	57 Yrs.
	M. 31.2	Poor	57 Yrs.
		Condition	Age
Buildings			
-Ponteix.....		Poor	57 Yrs.
-East Dollard.....		Poor	57 Yrs.
-Eston.....		Poor	57 Yrs.
-Invention.....		Poor	57 Yrs.

## EXHIBIT VII

## CANADIAN NATIONAL RAILWAYS

## SASKATCHEWAN AREA—PRAIRIE REGION

PROPOSED ABANDONMENT OF THE EXAMPLE SUBDIVISION  
FROM FICTITIOUS (MP. 0.0) TO INVENTION (MP. 60.0)

Year 1960.

## Statement No. 1

## ALTERNATE SHIPPING POINTS

On Line Station	Revenue	Carloads	Tons	Alternate Stations	Railway	Miles from on line Station
Ponteix.....	142,429	720	35,921	Uibank.....	CN	14
				Odessa.....	CN	12
				Kendal.....	CN	10
				Monmartre.....	CN	13
				Glenavon.....	CN	15
East Dollard.....	—	—	—			
Eston.....	—	—	—			
Kerrobert.....	—	—	—			
Wilkie.....	—	—	—			
Luseland.....	—	—	—			
Invention.....	2,600	—	50			

## EXHIBIT VIII

## CANADIAN NATIONAL RAILWAYS

## SASKATCHEWAN AREA—PRAIRIE REGION

PROPOSED ABANDONMENT OF THE EXAMPLE SUBDIVISION  
FROM FICTITIOUS (MP. 0.0) TO INVENTION (MP. 60.0)

Year 1960.

## Statement No. 1

## PRINCIPAL MOTOR CARRIERS OPERATING PERMITS AND ROUTES

Carrier	Permits	Route
John White.....	GF-STL	Ponteix—East Dollard—Wilkie—Luseland
T. C. Jones.....	GF-LS-STL	Ponteix—East Dollard—Eston—Kerrobert—Invention
GF—General Freight		
LS—Live Stock		
STL—Single Trip Load		

CANADIAN NATIONAL RAILWAYS  
 SASKATCHEWAN AREA—PRAIRIE REGION  
 PROPOSED ABANDONMENT OF THE EXAMPLE SUBDIVISION  
 FROM FICTITIOUS (MP. 0.0) TO INVENTION (MP. 60.0)  
 Year 1960.

*Statement No. 1*

ALTERNATE ELEVATOR POINTS

On Line Station	Elevator Company	Elevator Storage Capacity	10 Year Average Annual Shipment	Alternate Stations	Railway	Miles from on line Station	Elevator Company	Elevator Storage Capacity
		Bu.	Bu.					Bu.
Ponteix.....	Sask. Wheat Pool.....	85,000	425,000	KENDAL	CN	10	Natl. Grain	77,000

## EVIDENCE

TUESDAY, June 16, 1964.

(Text)

The CHAIRMAN: Gentlemen, we now have a quorum. This is the first regular meeting of the standing committee on railways, canals and telegraph lines. At the outset I would like to entertain a motion to specify the number of copies of our Minutes of Proceedings and Evidence to be printed in French and in English. Last year in this committee there were 750 copies printed in English and 300 in French. I would like to have your comments or a motion covering the printing of the evidence.

Mr. RHÉAUME: This would cover the report for Air Canada as well, would it not?

The CHAIRMAN: Yes sir.

(Translation)

Mr. GRÉGOIRE: Were there a sufficient number of copies last year?

The CHAIRMAN: There were a sufficient number of copies last year, Mr. Grégoire, although I should add that for the special committee we had 850 copies in English and 400 in French.

(Text)

There were 850 copies in English and 400 copies in French for the special committee on the Canadian National Railways and Trans-Canada Air Lines.

Mr. GRÉGOIRE: Was that sufficient?

The CHAIRMAN: That was sufficient. May I have a motion.

Mr. LESSARD (*Saint-Henri*): I so move, Mr. Chairman.

Mr. GRÉGOIRE: I second the motion.

The CHAIRMAN: It has been moved and seconded that 850 copies be printed in English and 400 copies in French be printed of the Minutes of Proceedings and Evidence.

(Translation)

Mr. GRÉGOIRE: As in the case of the special committee, do some people from the outside want copies at such times?

(Text)

The CHAIRMAN: Pardon me; I should have said 850. I am sorry; and 400 in French. Is it your wish?

Motion agreed to.

Mr. GRÉGOIRE: On a question of privilege, I know that the house has given this committee permission to sit while the house is sitting, but I would point out that today and tomorrow there will be in the house a special discussion of the flag issue which I think all members would like to attend. I think there are at least 50 members on this committee who would like to be in the house during the discussion on the flag issue, especially this afternoon and tonight, while the leaders of the New Democratic party and of the Ralliement des Creditistes are speaking.

Mr. HORNER (*Acadia*): What about Social Credit?

Mr. GRÉGOIRE: Maybe Social Credit, too. There will be a vote on the amendment of the Conservative party. I do not know if everyone would agree that we do not sit while the house is sitting today. I think it would be something to consider seriously and to give approbation to.

The CHAIRMAN: Before anybody else speaks, I am sure it has come to your attention that in order to examine the report of the Canadian National Railways and of Trans-Canada Air Lines, or of Air Canada, we have to bring here a great number of important officials, and that it is desirable that the work be completed in "X" number of consecutive days. I have to take into consideration the fact that everybody on the steering committee knew last week, that the flag debate would be coming up this week. I would hope that we could hold at least two meetings a day—even three if possible—and we might shorten them. But I am in the hands of the committee, of course.

Mr. RHÉAUME: Whatever immortal words are uttered on the flag issue, surely they could be read subsequently, so that they will be indelibly imprinted in our memories. I do not think there is any need for the committee members to be there. I think the committee would be most anxious to meet as many times a day as it possibly can in order to go through the reports as fully as possible.

Mr. PASCOE: I agree. The witnesses are very busy people, and I think we should make a special effort to carry on while they are here.

The CHAIRMAN: Let us proceed then, since there is no motion.

Mr. GRÉGOIRE: I shall put my motion in the house this afternoon.

The CHAIRMAN: Thank you, very much, Mr. Grégoire. Now I shall ask our clerk to read the order of reference.

#### THE CLERK OF THE COMMITTEE

WEDNESDAY, June 10, 1964.

ORDERED,—That the annual reports for 1963 of the Canadian National Railways and of the Canadian National Railways Securities Trust, and auditor's report to parliament for 1963 in respect of the Canadian National Railways, tabled on April 7, 1964, the budget for 1964 of the Canadian National Railways, tabled on March 30, 1964, the annual report of Trans-Canada Air Lines for 1963, the auditor's report to parliament for 1963 in respect of Trans-Canada Air Lines, tabled on March 6, 1964, and the budget for 1964 of Trans-Canada Air Lines, tabled on February 28, 1964, be referred to the standing committee on railways, canals and telegraph lines.

Attest.

LÉON J. RAYMOND,

*The Clerk of the House.*

The CHAIRMAN: Gentlemen, as a result, your steering committee met last week when it was decided to proceed today with the report of the Canadian National Railways. We have with us this morning the president of the Canadian National Railways who is well known to us, Mr. Donald Gordon, together with executive members of his railways. On your behalf I welcome them to our committee this morning and without further ado ask Mr. Gordon to introduce his executive members.

Mr. DONALD GORDON (*President of the Canadian National Railways*): Thank you, Mr. Chairman. In accordance with custom I would like to introduce Mr. Ralph Vaughan, Secretary of the company, who is at my immediate right; next to him, Mr. John Toole, Vice-President of Accounting

and Finance. His title is self-explanatory. Then Mr. J. W. Demcoe, Vice-President of Transportation and Maintenance. He will be available to deal more specifically with actual operating questions.

The CHAIRMAN: Now, your steering committee decided to proceed in the usual manner and to request Mr. Gordon to read his report in full, and thereafter for us to proceed section by section with the questioning. Mr. Gordon?

Mr. GORDON: Mr. Chairman, the report is addressed to The Hon. The Minister of Transport, Ottawa, Canada and reads:

### FINANCIAL REVIEW

#### General

An upward movement in Canadian business activity generated heavy demands for transportation services in Canada in 1963. This activity gave Canadian National an opportunity to demonstrate its ability to maintain a determined sales effort for competitive traffic in a busy market, while at the same time meeting strenuous, above-normal demands for rail services. The overall result was that the system handled its second highest volume of railway business (as measured by revenue ton miles) in its history, and gross revenues from all services increased \$27.9 million over the previous year to an all-time high of \$800.0 million. The following table compares gross revenues in 1962 and 1963:

	1963	1962	Increase
	(Millions of Dollars)		
Railway Operating Revenues .....	\$725.2	\$701.6	\$23.6
Telecommunications (Commercial Services) ..	37.2	36.7	0.5
	<hr/>	<hr/>	<hr/>
	762.4	738.3	24.1
Hotels (Excluding The Queen Elizabeth and Hotel Vancouver) .....	12.6	12.2	0.4
Separately Operated Trucking Companies ....	25.0	21.6	3.4
	<hr/>	<hr/>	<hr/>
Gross Revenues .....	\$800.0	\$772.1	\$27.9

Railway operating revenues increased \$23.6 million or 3.4 percent to \$725.2 million, while expenses, at \$720.2 million, were \$12.8 million or 1.8 percent higher than 1962. The resulting net railway operating income of \$5.0 million represented a \$10.8 million improvement over the \$5.8 million operating loss in 1962. Other income, together with net income from hotels, telecommunications and separately-operated trucking companies amounted to \$16.2 million, producing a surplus of \$21.2 million. This surplus fell short by \$43.0 million of the amount needed to meet interest charges on outstanding debt. However, the outcome was an improvement of \$5.9 million over the 1962 results, and \$5.3 million better than that forecast in the system operating budget.

#### Railway Operating Revenues

Revenues from freight services totalled \$573.5 million, an improvement of \$25.7 million or 4.7 percent over 1962. Principal contributors to higher revenues were new movements of potash, export grain shipments and increased shipments of automobiles and parts. Most of the increase in revenues from potash shipments represented new business for CN and came from the first full year of production at the potash mining development at Yarbo, Saskatchewan. While revenue ton miles were up 12.9 percent to 40.2 billion, the average revenue per ton mile declined 7.5 percent.

Revenues from freight services included \$10.1 million related to the freight rates reduction subsidy which reduces for shippers, on certain classes of traffic,

the full effect of the last freight rate increase authorized by the board of transport commissioners in 1958. The payments under this subsidy increased \$0.6 million mainly due to increased movements of commodities covered. For the same reason, there was a \$1.1 million increase in the east-west bridge subsidy which provides reduced rates to shippers on certain traffic moving between eastern and western Canada. There was also an increase of \$0.4 million in the amount received under the Maritime Freight Rates Act which reduces rates to shippers on traffic moving within and out of the Atlantic provinces. Interim payments related to the recommendations of the royal commission on transportation were \$1.1 million lower, reflecting the fact that the 1962 figure included adjustments in respect of 1961. The following table compares subsidy payments in 1962 and 1963:

	1963	1962	Increase or (Decrease)
	(Millions of Dollars)		
Freight rates reduction subsidy .....	\$10.1	\$ 9.5	\$ 0.6
Maritime Freight Rates Act .....	11.3	10.9	0.4
East-west bridge subsidy .....	4.3	3.2	1.1
Total included in freight services revenues ...	25.7	23.6	2.1
Interim payments .....	29.1	30.2	(1.1)
Newfoundland and P.E.I. steamship services ..	16.8	16.6	0.2
Total .....	\$71.6	\$70.4	\$1.2

#### Railway Operating Expenses

Expenses were higher in 1963, arising in the main from an increase in the total compensation to employees. Improved wages and pension benefits and contributions to a job security fund amounted to \$12.5 million. Depreciation charges, taxes and material prices were also higher. Through close attention to controllable expenses, the higher costs were partially offset and despite an increase of 10.3 percent in the freight work load, as expressed in gross ton miles, railway operating expenses were held to an overall increase of \$12.8 million or 1.8 percent.

Depreciation charged to rail operations was \$87.2 million, up \$1.2 million from 1962. This constitutes the major portion of the total system depreciation of \$90.0 million for 1963, which exceeded 1962 by \$3.1 million, primarily due to increased investment in depreciable property.

System taxes increased by \$1.4 million to \$26.6 million in 1963 of which \$22.8 million was charged to railway operating expenses. Included in the System total were \$5.5 million for unemployment insurance, \$18.5 million for Canadian provincial and municipal and state taxes, and \$2.6 million for payments under the U.S. railroad retirement act. Other taxes which were included in the purchase price of materials amounted to \$19.3 million.

Equipment and joint facility rents were \$3.8 million, higher by \$0.7 million than in 1962 mainly because of increased use of leased cars.

#### Debt and Interest

There was a reduction of \$51.1 million in the total interest-bearing debt made possible mainly from the excess over capital expenditures of the funds derived from the company's own resources including the sale of preferred stock. However, interest charges increased \$1.7 million to \$64.2 million due to higher interest costs arising from refunding of outstanding debt.

#### Capital Expenditures

Capital expenditures chargeable to property investment account in 1963 and 1962 appear, by major categories, in the table below. They were financed entirely from funds generated internally and from the sale of preferred stock.

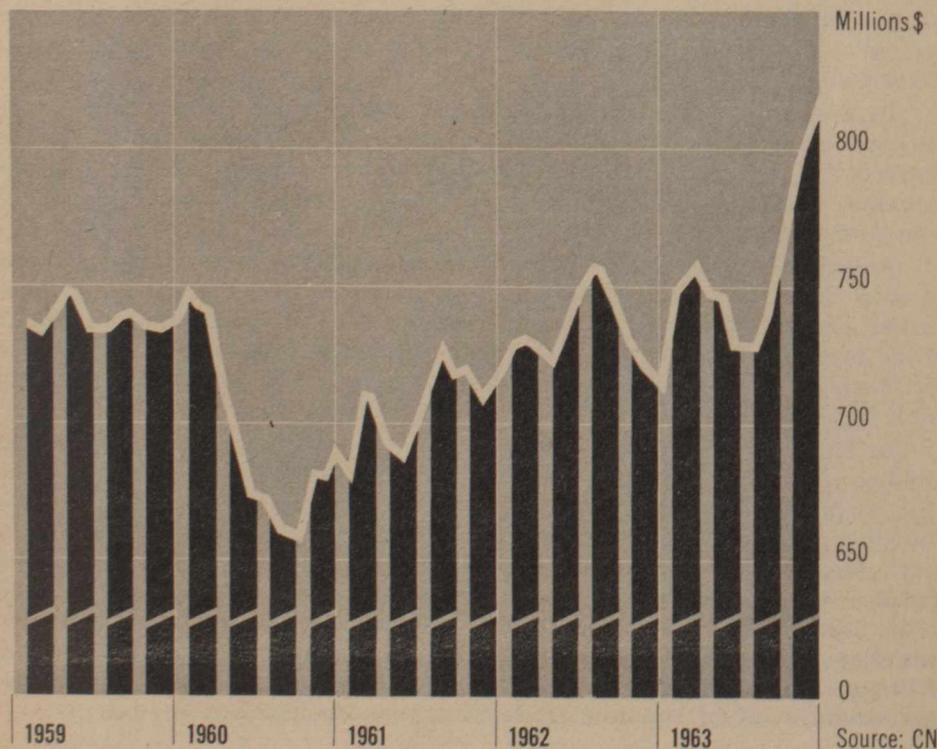
	1963	1962
	(Millions of Dollars)	
Road Property .....	\$ 66.0	\$ 55.3
Large Terminals .....	13.6	10.3
Branch Lines .....	3.8	5.6
Equipment .....	14.0	28.8
Telecommunications Facilities .....	27.3	11.7
Hotels .....	2.3	1.8
Total .....	\$127.0	\$113.5

## DEVELOPMENT

## Research

Construction of a new laboratory adjacent to Montreal yard was undertaken in 1963 in response to growing demands for increased facilities for research programs into improved technology, methods and materials in the provision of transportation services. The laboratory also provides inspection and testing services for materials and supplies purchased by the system. Through its services, continuing attention will be given to such areas of research as soil mechanics, track material and structure, equipment design, lubrication, fuel, corrosion control and low temperature operations. Meanwhile, rewarding results emerged in 1963 from earlier studies. Reaching completion, for example, was the development of a special car equipped with sensitive electronic devices for measuring track conditions under normal train speeds and loads. The data obtained are used for setting track standards and judging

## Operation Revenues Seasonally Adjusted at Annual Rates



the performance of track maintenance machinery. Another technical achievement was the perfection of an electronic scale capable of weighing freight cars travelling at speeds up to 15 miles per hour. This scale, which is the first of its type to meet the rigid requirements of the federal government, is being installed in major classification yards. Advances were also made in the improvement of protective coatings for railway equipment and property by adapting new synthetic resins to railway uses. The improved protection provides more economical painting, reduced maintenance costs and longer life for equipment and structures.

#### Branch Lines

Construction moved ahead on the Great Slave Lake Railway which, when completed, will extend 377 miles from Roma, near Grimshaw, Alta., to Hay River, N.W.T., with an additional 53-mile branch line to Pine Point Mines. At year-end, 226 miles of track had been completed, while clearing, grading, bridge and trestle work progressed on the remaining portion of the line. Also, administrative and operating facilities were built at Roma. The line is being opened as construction proceeds and some revenue traffic has been moving over portions of the line since 1962.

In October, the 61-mile rail extension to the Matagami Lake region of northwestern Quebec was formally opened. The line serves zinc-copper mining developments. In New Brunswick, a 15-mile branch line was completed from Nepisiguit Junction, near Bathurst, to a zinc-lead-copper mining property. In northern Manitoba to transport ore from new copper-zinc mines.

#### Real Estate

Urban development projects were advanced in several centres across Canada in 1963 in accordance with the system's program to redevelop its real estate holdings in co-operation with municipal authorities and private developers.

In Edmonton, Alberta, agreement was reached with private interests for construction of a 26-storey building to house commercial offices and a passenger station. The structure will also provide accommodation for the railway's mountain region and Edmonton area headquarters' staffs. Construction is scheduled to start early in 1964.

Proposals were invited in mid-1963 for the redevelopment of approximately 24 acres of Canadian National property in downtown Saskatoon, Saskatchewan. Earlier, general agreement had been reached with the city for the ultimate use of the property. For CN, the plan involves moving almost all of its facilities to Chappell on the southwestern outskirts of the city where a new freight yard, passenger station and express freight terminal are being built.

In Montreal, work will begin in 1964 on a 28-storey commercial office building east of the Queen Elizabeth Hotel on Dorchester boulevard. Being built by private interests, it is another project in the overall redevelopment of Canadian National's property surrounding Central station. Meanwhile, proposals were invited for the development of the air rights over the railway tracks south of Lagauchetière street. This area is a large city block in size and is the last of three major sections of property in the terminal area to be redeveloped. Also, in Central station the concourse was enlarged to provide additional commercial space and expanded restaurant facilities, and a new and faster system for handling checked baggage was installed.

### Industrial Development

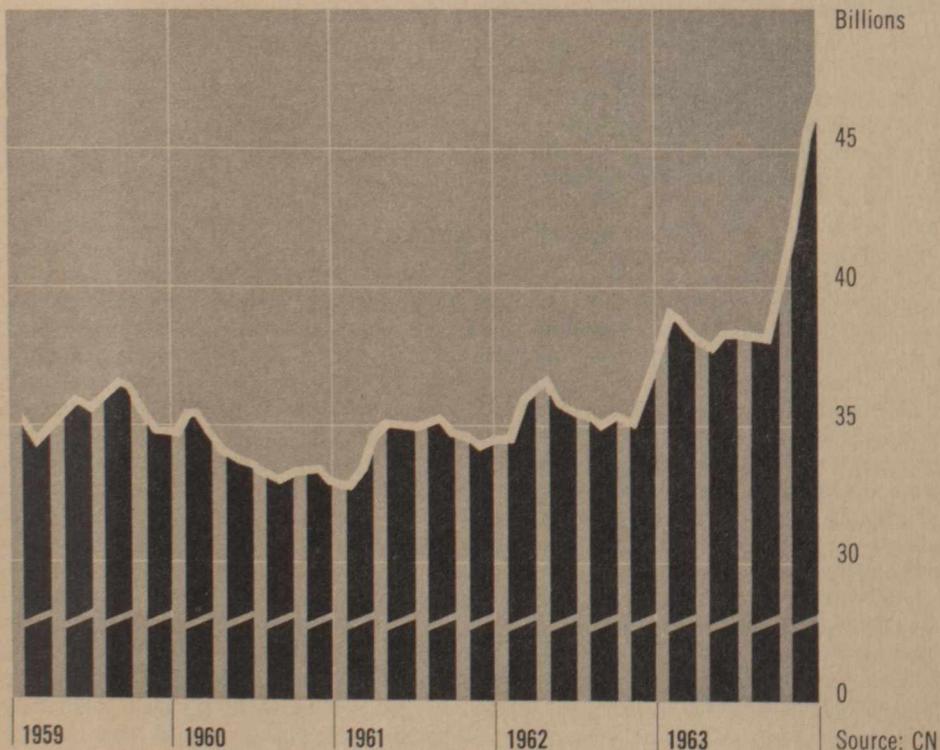
Canadian National continued to provide existing and prospective customers with a comprehensive industrial location service aimed at attracting new resource, industrial and commercial development in areas served by the system. During 1963, a total of 356 resource developments, manufacturing plants and major warehousing and distributing facilities were established in locations served by Canadian National freight services. An additional 181 industries, already served by CN, expanded their facilities. Of these new plants and expansions, some 248 required private sidings. A total of 38 miles of private sidings and industrial spurs was constructed during 1963.

## OPERATIONS

### Yards

Construction moved ahead during the year on Toronto yard, an electronically-controlled hump classification yard, and 34 miles of access lines. Scheduled for completion in 1965, the yard will divert and speed up freight operations, thereby relieving much of the current congestion in the centre of Toronto. Similar to yards already in operation at Moncton, Montreal and Winnipeg, the Toronto yard will incorporate the latest developments in semi-automatic classification. It will be capable of receiving classifying and despatching 6,000 freight cars a day and will have standing capacity for 10,300 cars.

Revenue Ton-Miles Seasonally Adjusted at Annual Rates



A new flat-type classification yard and associated diesel locomotive and car repair shop is under construction in Saskatoon as part of the program to remove railway operations from the centre of the city. In Newfoundland, the

reconstruction of freight yards at Corner Brook and St. John's was substantially completed by year-end.

#### Track and Signals

As part of continuing track maintenance and improvement programs, more than 600 miles of new rail was laid on principal lines in 1963. About 100 miles of partially worn rail was laid on light traffic lines, while more than 1.4 million ties were installed across the system.

Centralized traffic control signalling was installed along about 500 miles of mainline track in 1963. The work was carried out principally in western Canada and brought the mileage of CTC-equipped track on the system to 3,209. A centrally-controlled signalling system, CTC expedites train movements and increases track capacity.

#### Data Processing

A comprehensive data processing information system, covering all freight and passenger train movements, went into operation on the Atlantic, mountain and prairie regions. This computer-based information system assists management in improving customer services and in strengthening managerial controls to produce more economical and efficient operations. It is expected this system will be extended to the St. Lawrence and Great Lakes regions in 1964. This is one example of CN's efforts to realize the full potential of present-day data processing techniques.

#### Work Study

Increased productivity is being achieved regularly through work study programs which seek out the most efficient use of men, materials and equipment. One of many examples is the recent introduction of a modern production planning and control system in main shops at Point St. Charles, (Montreal) and Transcona, Manitoba. The results from this method of control have been encouraging and it will be applied to other repair facilities on the system.

### FREIGHT SERVICES

#### Sales

In many respects, the high volume of business obtained by Canadian National in 1963 represented concrete rewards from long-range sales-development programs that have been implemented as part of the System's comprehensive, market-oriented approach to the sale of railway services. This approach, adopted in 1960 and which involves adapting railway services to meet customer requirements, is growing in importance as a key to expanding CN's share of what promises to be a more openly competitive transportation market in the future. The freight sales organization is currently reviewing the system's competitive position in anticipation of greater freedom in pricing which may result from federal government legislation based on the recommendations of the royal commission on transportation.

Customer research service, a new concept in customer relations and service, was offered on a system-wide basis in 1963. It makes the various technical and research groups within the railway available to customers to assist in developing systems for shipping or materials handling, and in seeking solutions to general distribution problems.

#### Services

Productivity of freight trains reached a new peak in 1963 with an average of 56,600 gross ton miles per freight train hour for all types of freight trains. This was more than double the figure of 27,800 recorded in 1950. Scheduled fast freight trains alone averaged 83,500 gross ton miles per freight train hour.

A new fast freight train was inaugurated in October between Toronto and Winnipeg, with connections to points in western Canada and the Pacific coast. This was the third consecutive year in which a new fast freight train was placed in service to improve shipping schedules between eastern and western Canada.

"Aquatrain", the freight car ferry service inaugurated in 1962 between Prince Rupert, British Columbia and Whittier, Alaska, was extended in 1963 by the addition of a rail car barge to serve the port of Saxman, on Ketchikan Island, Alaska.

The use of containers was expanded in certain operations, while studies were undertaken to find further specific uses for them, especially in the express freight field. One hundred and twenty-seven all-steel containers were built in railway shops to meet growing requirements in the shipping operations between the mainland and Newfoundland. The containers allow cargo to be transferred quickly and efficiently between train and ship at the loading and unloading points.

Piggyback services expanded in 1963 with tonnage increasing by 5.9 percent and revenues by 6.3 percent over 1962. Additional points in Ontario and British Columbia were included in Plan 1 piggyback under which commercial trailers are carried. In Montreal, a modern terminal was established in part of the old Turcot classification yard to facilitate piggyback operations.

#### Equipment

Growing requirements for special-purpose freight equipment were met in 1963 through conversion programs and the purchase of new equipment. In order to increase the supply of cars for wheat traffic, 1,000 hopper cars, normally used for hauling gravel, were equipped with plywood tops in CN shops and placed temporarily in grain service. Modifications were made to 100 gondola cars and 50 box cars to make them suitable for handling wood chips, while another 100 gondola cars were equipped to carry pulpwood. Bulkheads were installed on 130 flat cars assigned to pulpwood or lumber traffic. One hundred and five ore cars were modified to handle pelletized ore. Doors were widened on 500 standard box cars in response to a growing demand for cars which can be loaded and unloaded by fork-lift trucks. Programs were started to convert 100 ice refrigerator cars to mechanical refrigeration through a method developed by CN, and to install underframe cushioning devices on 100 newsprint cars to protect loads from damage. New equipment orders included 55 tri-level automobile transporters, 100 covered aluminum hopper cars and 100, 70-ton flat cars.

#### Express Freight

Express freight, the system's co-ordinated road and rail service for package and non carload shipments, was further developed in 1963. The new service is emerging from the gradual consolidation of express and LCL (less than carload) freight services across the system, and is based on trains handling the long haul, between centrally-located road-rail terminals, and highway vehicles performing pickup and delivery services in the districts surrounding these central points. An integral part of the development of express freight is the application of the master agency concept which provides customers in smaller and scattered communities with the advantages of urban-type railway communications and service. The master agency plan was tested in 1963 in the Atlantic region where it has been well received by customers and community interests. A similar test is under way in the mountain region. Also, express and LCL operations were integrated at a number of points on the system, including Bonaventure terminal in Montreal, a modern streamlined express freight terminal capable of handling 9,000 parcels an hour. In Hamilton, Ontario, tracks were re-arranged and other work carried out preliminary to construction of a large express freight terminal, to begin in 1964.

### Trucking Subsidiaries

Net operating profit for the eight separately-operated trucking companies and two associated terminal companies, whose stock is owned by Canadian National Transportation, Limited, was \$1.3 million.

## PASSENGER SERVICES

### Sales

Revenues from passenger services were \$44.4 million compared to \$44.0 million the previous year. This result was achieved despite a 6 percent reduction in the number of passenger train miles operated and it maintained the position attained in 1962 when a prolonged decline in revenues was halted.

The system extended its comprehensive marketing and sales program in 1963. Directed toward expanding Canadian National's share of the travel market, it involves modern pricing concepts, improved schedules and equipment and expanded services for passengers.

The red, white and blue fare plan, in which ticket prices vary by days according to traffic demands, was extended following a one-year experiment between points in Quebec and the three maritime provinces. The experiment indicated that passenger business could be substantially increased through this form of pricing and the new fare plan was extended to include Newfoundland, the transcontinental route, lines in southwestern Ontario, four western provinces and, in cooperation with the Ontario Northland Railway, between Toronto and points in northern Ontario.

### Schedules and Services

Coincident with the extension of red, white and blue fares, improvements were made to schedules, equipment and on-train services. The schedule of the super continental between Montreal-Toronto and Vancouver was shortened by almost three hours, providing more convenient departure and arrival times at all principal cities across the country. At the same time, smartly redesigned equipment was introduced. Coaches were refurnished and a refreshment lounge for coach passengers was added, while a club lounge was provided for passengers with sleeping accommodation. Coach accommodation was placed on a reserved basis, at no extra cost, and attendants were assigned to see to the needs of coach passengers.

Free coach reservations and services of attendants were also introduced on the ocean limited between Montreal and Halifax.

Other improvements in service included a reduction in the schedule and better equipment for the scotian between Halifax and Montreal to provide a service comparable to that of the ocean limited and especially timed to make connections in Montreal with trains to and from Toronto and southwestern Ontario. In New Brunswick, the conventional trains between Moncton and Saint John were replaced by self-propelled railiners to provide faster schedules.

Other travel features introduced in 1963 included charter coaches and sleepers for groups, and car-go-rail, whereby passengers' automobiles are transported in conjunction with their rail trips. A CN-financed charge-a-trip plan for travel on the system's lines in Canada went into effect early in 1964.

### Administration

In an administrative change in the sales organization at system headquarters in January, 1964, the passenger sales and services function was given the status of a full department, headed by a vice-president. This move was in recognition of the growing importance Canadian National is attaching to its passenger business and acknowledges the public's response to CN's efforts to enlarge its share of the travel market.

## HOTELS

## Financial Results

Net income from hotel operations in 1963 was \$1.4 million, a decrease of \$0.9 million from 1962. While revenues of Canadian National hotels were higher than in 1962, this increase was more than offset by increased operating expenses, the most significant of which was the cost of major exterior repairs to buildings. The decrease in the net return from the hotel Vancouver is attributable mainly to a decline in revenues from 1962 when this hotel had the benefit of the Seattle world's fair. The net return from the Queen Elizabeth hotel was less than in 1962. This was due to the combination of lower revenues and increased expenses in the hotel and high expenses during the early operation of the new Place Ville Marie restaurants. The following table compares net income in 1963 and 1962:

	1963	Income or (Loss)	1962
Hotels operated by Canadian National:			
Income before major repairs .....	\$ 331,114		\$156,557
Major repairs to buildings .....	354,947		—
Net Income or (loss) .....	(23,833)		156,557
Hotel Vancouver .....	(247,842)		116,496
Queen Elizabeth Hotel .....	1,622,393		2,012,918
Net income from hotels .....	\$ 1,350,718		\$2,285,971

## Improvements

A five-year program to modernize the hotels was begun in 1963. Plans call for air-conditioning, expanded parking facilities, refurbishing, redecorating and improved dining and other guest facilities. During the year, major projects included the continuation of the rebuilding program at Jasper Park lodge, where nine multiple-unit cabins were built to replace 12 outdated structures; air-conditioning at the Fort Garry, Winnipeg, and the replacement of the cafeteria at the Chateau Laurier, Ottawa, by a new restaurant. Also at the Chateau, preliminary work was carried out for the renovation of the lower level and air-conditioning of the hotel. Improvements to guest rooms and public rooms were made at the Newfoundland, St. John's; the Nova Scotian, Halifax; the Charlottetown, in P.E.I.; and the Macdonald, Edmonton. A total of \$2.1 million was invested on these projects during the year.

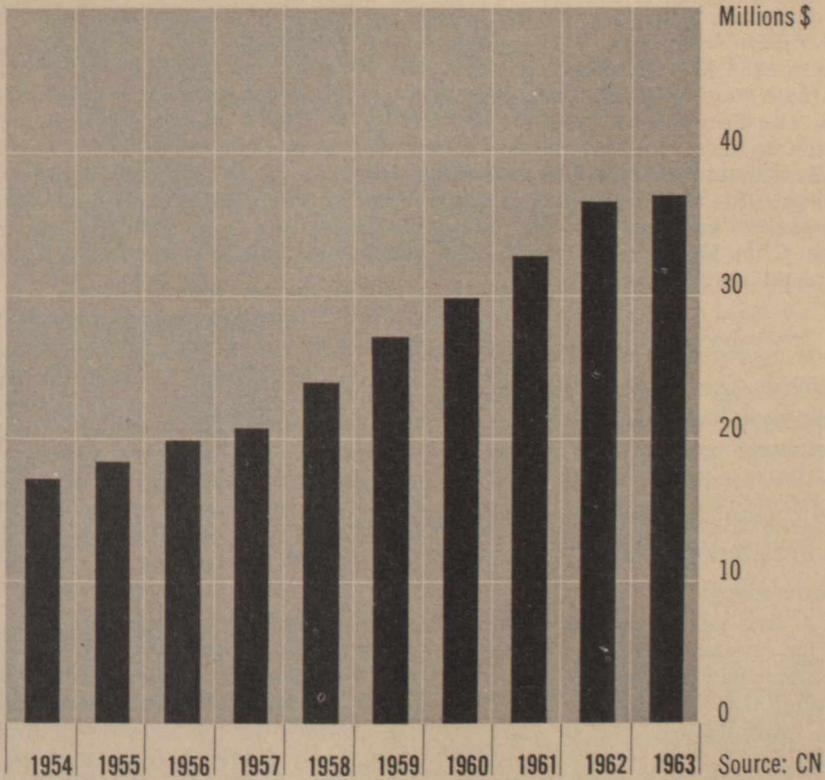
## Other Developments

In July, Canadian National acquired Canadian Pacific's interest in the Vancouver Hotel Company Limited which operated the CN-owned hotel. Subsequently, an agreement was entered into with Hilton of Canada Limited for the management and operation of the hotel, an arrangement similar to that under which the Queen Elizabeth hotel in Montreal is operated. A major renovation and modernization program will be carried out on the property over the next three years.

## TELECOMMUNICATIONS

Net income from all telecommunications services was \$5.4 million in 1963, down \$0.2 million from 1962. While there was an increase in total revenues, this was offset by increased expenses, resulting from higher depreciation and total wage costs. Higher revenues were recorded in telex, telephone and leased wire services, while revenues from telegrams and broadcast facilities were lower.

## Telecommunications Revenues from Commercial Services



Growth in plant capacity amounted to 64,000 carrier telephone channel miles and 66,000 carrier telegraph channel miles, for percentage increases of 11.5 and 5.2 respectively. Six new telex exchanges were opened, bringing the total to 67 exchanges serving 614 communities across Canada. The number of subscribers rose to 6,000 from 4,600 in 1962.

Two new microwave systems were completed, the larger being the Montreal-Vancouver system built jointly by Canadian National and Canadian Pacific. With the existing systems east of Montreal, the new system forms a transcontinental trunk route serving major centres across Canada. It is also the North American land link for the commonwealth telecommunications system between the United Kingdom and Canada, New Zealand and Australia. Initially, the Montreal-Vancouver microwave system will be capable of carrying 600 voice channels which may be used for telephone, telegraph, facsimile and other types of transmission. It can be expanded readily to provide additional voice channels or television services.

The second microwave facility, a tropospheric scatter-wave radio system, reaches from Hay River, N.W.T., to Lady Franklin Point on Victoria Island in the Arctic, a distance of 554 miles. While constructed for defence purposes, the system will also enable CN Telecommunications to provide commercial communications to Coppermine and Cambridge Bay, N.W.T.

Other activities in Northern Canada included: a start on construction of a 1,020-mile pole-line system which, when completed in 1965, will provide communication services to a number of communities in the Mackenzie River Valley

between Hay River and Inuvik, N.W.T.; initial work for the expansion, in 1964, of the capacity of the 1,200-mile microwave system between Grande Prairie, Alberta, and the Yukon-Alaska border, and a start on the installation of new telephone, telegraph and radio systems for the communities in northern British Columbia, the Yukon and Northwest Territories.

In Newfoundland, a project to increase the capacity of the microwave link between St. John's and Sydney, Nova Scotia, was begun. Also, construction of communications facilities to the north coast and south coast areas was undertaken, and dial telephone exchanges were installed in 18 communities in the province.

## PERSONNEL AND LABOUR RELATIONS

### Labour Relations

In November, new contract demands were received from unions representing more than 66,000 Canadian National employees. Involved are 15 unions, representing 57,500 non-operating employees, and the Brotherhood of Railroad Trainmen representing some 8,600 conductors, trainmen, and yard employees. Contracts with both groups expired on December 31, 1963, and in January 1964, a two-year agreement was reached with the Brotherhood of Railroad Trainmen involving an increase of 5 percent in wage rates. The non-operating unions negotiate jointly with Canadian National, Canadian Pacific and five other railroads. While a number of meetings was held between the railways and the unions' joint negotiating committee, no progress was made, and in January the parties sought the conciliation services of the Department of Labour.

Under the terms of the previous agreement with the non-operating unions, dated November 2, 1962, a joint management-union committee was established to work out the specific provisions of a work security plan, and to revise seniority and related rules. The railways advanced an overall proposal for this project to the committee in April, and while progress was made in developing a workable plan, there were, at year-end, points in dispute which had yet to be settled.

In the United States, the arbitration board, established to hear the work rules dispute between the railways and their operating employees, announced its findings on November 26, 1963. The award provides for gradual elimination of firemen and establishes guidelines for the parties to negotiate future changes in the make-up of train crews. Implementation of the awards was delayed because the unions are contesting it before the courts.

During the year, eight contract settlements covering some 2,000 employees in seven hotels were achieved. In addition, five collective agreements were signed with other groups of employees including a five-year agreement for deck officers in the Newfoundland Steamship Services.

### Employee Relations

Training continued to receive special attention during the year. A new training centre was established at Saskatoon, bringing training opportunities within more convenient range of the company's many western employees.

In addition to established programs to keep employees informed of new developments and other matters of interest to them, a series of meetings was held in June during which the president and other senior officers discussed the 1962 annual report and future company activities with the general chairman of unions representing CN employees. The meetings were reported by both parties as a new and useful form of communication between management and labour.

Continuing attention was given to the development and implementation of measures that will gradually cause the system to reflect the bicultural character of Canada to a greater degree in its operations and personnel composition.

#### Pensions and Welfare

Total charges against CN earnings for pensions (excluding United States railroad retirement taxes of \$2.6 million) in 1963 compared with 1962 were as follows:

	1963 (Millions of Dollars)	1962 (Millions of Dollars)	Increase or (Decrease)
1935 and 1959 pension plans	\$28.2	\$26.3	\$1.9
Pre-1935 plans, etc. (including I.C. & P.E.I. Railway Employees' provident fund)	7.0	7.1	(0.1)
<b>Total</b>	<b>\$35.2</b>	<b>\$33.4</b>	<b>\$1.8</b>

Exclusive of payments made under the United States Railroad Retirement Act, there was paid to pensioners and beneficiaries, under the various Canadian National pension arrangements, a total of \$37.4 million in 1963, and 30,411 individuals were receiving such payments at the year end.

Charges against CN earnings for welfare plans providing hospital-surgical-medical benefits and life insurance were \$6.4 million in 1963.

#### Corporate Structure

Under a continuing program to simplify the corporate structure of Canadian National Railway Company, six constituent companies were eliminated. They were Canadian National Hotels, Limited; The Central Counties Railway Company; The Montreal Stock Yards Company; The Montreal Warehousing Company; Yellowknife Telephone Company, and, effective January 14, 1964, Montreal and Southern Counties Railway Company.

#### CN-CP Act

Areas where co-operative measures might be undertaken were explored in discussions with the Canadian Pacific Railway Company.

#### Board of Directors

On July 2, 1963, the government appointed Mr. C. A. Pippy of St. John's, Newfoundland, to the board of directors for a term expiring September 30, 1965.

### THE OUTLOOK

In many respects, 1963 was an exceptional year for Canadian National Railways. A buoyant economy and an unusually high demand for transportation services put to a rigid test the overall efficiency of the new plan of organization introduced early in 1961. Considering the complexity and the far-reaching nature of the changes which had been made, the first since the formation of the system in 1923, it was considered that noteworthy progress had been achieved in a relatively short time. The entire work force proved effective in enlarging the railway's share of traffic in competition with other carriers, and the capacity of the plant fulfilled the demanding objectives. The result was that the system did more business than ever before with gross sales reaching \$800 million, and had the second highest volume of revenue ton miles in any year of its history. It was significant that this volume of business was handled at an unparalleled level of efficiency. For example, the 40.2 billion revenue ton miles carried in 1963 was surpassed only by the 41.9 billion carried in 1956; the 1963 traffic, however, was handled with 13,000 fewer pieces of freight equipment than required in 1956, mainly because of improved car utilization and distribution techniques.

The 1963 performance illustrated, as well, the ability of the railway plant to absorb a large volume of additional business without greatly increasing its total expense. While the freight work load increased 10.3 percent over 1962, railway operating expenses rose only by 1.8 percent.

An important part of the achievement of 1963 was the contribution Canadian National made to the successful delivery of the large export grain orders. This immense task came upon the railway unexpectedly, and the company responded in the national interest to meet the requirements of the Canadian Wheat Board efficiently and expeditiously. From the beginning of the 1963 crop year in August, the system transported 85,500 cars of grain, or 169 million bushels, and at year-end was more than 3,000 cars ahead of schedule in its deliveries. All of this additional work load was performed without disruption to regular services or other shipping needs.

The foregoing accomplishments, regarded as significant indicators of improved sales effort and operating efficiency, are not, however, apparent in the on-paper financial result. While gross sales were higher, the work load greater, and inventory and controllable expenses held firmly in line, the net income was insufficient to meet the interest burden which produced a deficit of \$43 million. Most of this debt can be identified as a legacy from the past through a deficiency in depreciation practices which restricted the company's ability to finance capital expenditures from internal sources. The provisions of the Capital Revision Act of 1952 have now run their normal term and, as was the understanding at that time, the effectiveness of the measures is being re-examined in light of approximately ten years' experience. The basic principle of the capital revision proposals which the company has recommended to the government is that the railway be relieved of the crushing burden of debt charges which make the annual profit and loss account such an inaccurate reflection of management and employee efficiency. In the new competitive environment envisioned by the intended legislation based upon the MacPherson Royal Commission on Transportation, it is deemed essential that Canadian National be placed in a position whereby it can be judged and held accountable on the same basis as its competitors. The board of directors and management consider that if the company is destined to chronic deficits, then this will not only be severely damaging to the morale of the personnel but could, in fact, have a detrimental effect on the important private enterprise sector of the transportation industry.

Canadian National is a valuable national asset and occupies a prime and unique role in the life of Canada. Its objectives of providing an efficient and economic transportation system can be fulfilled more satisfactorily if the accounts are placed on a basis that will reflect the true story of current operations, so that the annual results do not need qualification and explanation in respect of the past.

The board of directors once again takes pleasure in expressing its appreciation for the continued loyal services rendered by officers and employees throughout the system.

D. Gordon

Signed on behalf of the board of directors.

Montreal, March 16, 1964

The CHAIRMAN: Thank you, Mr. Gordon. Have you anything further to say at the present time, or is that your full report?

Mr. GORDON: That is my full report.

The CHAIRMAN: There are certain financial and statistical statements which form part of this report. Is it the wish of the committee that they be printed in the minutes of evidence without being read?

Agreed.

The financial and statistical statements follow:

## CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1963

## ASSETS

*Current Assets*

Cash.....	\$ 32,707,012	
Accounts receivable.....	87,811,533	
Material and supplies.....	62,990,782	
Other current assets.....	20,275,051	
Government of Canada—Due on deficit account.....	8,513,517	
		\$ 212,297,895

<i>Insurance Fund</i> .....		17,500,000
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*Investments in Affiliated Companies Not Consolidated*

Trans-Canada Air Lines.....	242,471,000	
Jointly operated rail and terminal facilities.....	48,539,703	
		291,010,703

*Property Investment*

Road.....	2,515,851,946	
Equipment.....	1,324,952,640	
Other physical properties.....	123,694,663	
	3,964,499,249	
Less recorded depreciation.....	801,049,925	
		3,163,449,324

*Other Assets and Deferred Charges*

Other investments.....	3,576,549	
Prepayments.....	2,464,684	
Unamortized discount on long term debt.....	19,489,453	
Other assets.....	9,989,523	
Deferred charges.....	10,578,349	
		46,098,558

\$3,730,356,480

## LIABILITIES

*Current Liabilities*

Accounts payable.....	\$ 64,815,458	
Accrued charges.....	23,756,029	
Other current liabilities.....	3,052,302	
		\$ 91,623,789

<i>Provision for Insurance</i> .....		17,500,000
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<i>Other liabilities and Deferred Credits</i> .....		33,113,192
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*Long Term Debt*

Bonds.....	1,380,898,764	
Government of Canada loans and debentures.....	410,354,762	
		1,791,253,526

## SHAREHOLDERS' EQUITY

*Government of Canada*

6,000,000 shares of no par value capital stock of Canadian National Railway Company.....	359,963,017	
991,504,556 shares of 4% preferred stock of Canadian National Railway Company.....	991,504,556	
Capital investment of Government of Canada in the Canadian Government Railways.....	440,912,615	
	1,792,380,188	

<i>Capital Stock of Subsidiary Companies Owned by Public</i> .....	4,485,785	
		1,796,865,973

\$3,730,356,480

The notes on page 22 are an integral part of this Balance Sheet.

L. J. Mills, Comptroller.

## CONSOLIDATED INCOME STATEMENT

	1963	1962
Railway Operating Revenues.....	\$ 725,181,334	\$ 701,622,754
Railway Operating Expenses.....	720,169,669	707,442,091
Net Railway Operating Income or (Loss).....	5,011,665	(5,819,337)
Net Income from:		
Telecommunications department.....	5,367,458	5,619,686
Hotels.....	1,350,718	2,285,971
Separately operated trucking companies.....	1,283,213	875,975
Other income.....	8,177,720	10,616,841
	16,179,109	19,398,473
Net Income before Interest on Debt.....	21,190,774	13,579,136
Interest Charges:		
Total interest on debt.....	75,822,804	74,017,366
Less interest received on loans to Trans-Canada Air Lines.....	11,618,513	11,518,776
Net Interest on Debt.....	64,204,291	62,498,590
(Deficit).....	\$ (43,013,517)	\$ (48,919,454)

## AUDITORS' REPORT

To The Honourable The Minister of Transport,  
Ottawa, Canada.

We have examined the consolidated balance sheet of the Canadian National Railway System at December 31, 1963 and the consolidated income statement for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the position with regard to depreciation accruing prior to the adoption of depreciation accounting as referred to in Note 1, the accompanying consolidated balance sheet and the related consolidated income statement are properly drawn up so as to give a true and fair view of the state of the affairs of the System at December 31, 1963 and of the results of its operations for the year ended on that date according to the best of our information and the explanations given to us and as shown by the books of the System, and in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We further report that, in our opinion, proper books of account have been kept by the System and the transactions that have come under our notice have been within the powers of the System.

McDonald, Currie & Co.,  
Chartered Accountants.

February 25, 1964

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 1963

*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 1963. 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.

Depreciation on U.S. Lines: Replacement accounting for track and depreciation accounting for equipment and other 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: Major Commitments*

## (a) Pension Funds:

The Company has given a written acknowledgement to the Trustee of the Pension Funds for an amount not exceeding \$395,000,000 for the outstanding liability in respect of prior service of active employees.

## (b) Vacation Pay:

In accordance with past practice the Company has not recorded the liability for vacations earned in 1963 which will be paid in 1964.

## (c) Chicago &amp; Western Indiana Railroad Company:

The Grand Trunk Western Railroad Company is liable jointly and severally with four other proprietors as guarantor of principal and interest with respect to \$10,997,000 First Collateral Trust Mortgage 4 $\frac{3}{8}$ % Sinking Fund Bonds due May 1, 1982 of the Chicago & Western Indiana Railroad Company. In addition, the proprietors are obligated to make annual sinking fund payments sufficient to retire the bonds at maturity and to meet interest as it falls due; in the absence of default of any of the other proprietors, Grand Trunk Western's proportion of such annual payments is one-fifth.

## (d) The Belt Railway Company of Chicago:

The Grand Trunk Western Railroad Company is liable jointly and severally with eleven other proprietors as guarantor of principal, interest and sinking fund payments with respect to \$36,505,000 First Mortgage 4 $\frac{3}{8}$ % Sinking Fund Bonds series "A", due August 15, 1987 of the Belt Railway Company of Chicago. Each proprietor is to make payments to the extent required in proportion to its usage of the Belt's facilities in the preceding three years. For the three years ended December 31, 1963 Grand Trunk Western Railroad's usage was approximately 2.1% of the total.

## (e) Detroit &amp; Toledo Shore Line Railroad Company:

The Grand Trunk Western Railroad Company is jointly and severally liable with one other proprietor as guarantor of principal, interest and sinking fund payments with respect to \$2,708,000 First Mortgage 3 $\frac{1}{4}$ % 30-year series "A" Bonds, due December 1, 1982 of the Detroit & Toledo Shore Line Railroad Company.

## RAILWAY OPERATING REVENUES

	1963	1962
Freight Services.....	\$573,477,011	\$547,799,257
Passenger Services:		
Passenger.....	34,491,894	34,331,531
Sleeping, dining and parlour car, etc.....	9,862,221	9,645,296
	<u>44,354,115</u>	<u>43,976,827</u>
Mail.....	10,626,819	11,030,572
Express.....	45,602,316	46,963,146
Other.....	22,064,172	21,650,472
Interim Payments—Royal Commission on Transportation....	29,056,901	30,202,480
	<u>\$725,181,334</u>	<u>\$701,622,754</u>

## RAILWAY OPERATING EXPENSES

Road Maintenance.....	\$143,181,049	\$142,878,959
Equipment Maintenance.....	151,924,929	148,450,417
Transportation.....	312,530,459	309,058,698
Sales.....	17,182,774	16,361,800
Miscellaneous.....	6,956,866	6,152,519
General.....	61,725,269	58,704,428
	<u>693,501,346</u>	<u>681,606,821</u>
Railway Tax Accruals.....	22,839,768	22,746,605
Equipment and Joint Facility Rents.....	3,828,555	3,088,665
	<u>\$720,169,669</u>	<u>\$707,442,091</u>

## OTHER INCOME

Rent Income.....	\$ 3,707,769	\$ 3,443,272
Interest Income.....	2,160,206	1,976,129
Dividend Income.....	294,311	239,617
Amortization of premiums on shares purchased.....	(2,092,660)	—
Profit from sale of real property.....	4,548,963	2,435,994
Increased provision for insurance.....	(2,500,000)	—
Miscellaneous (Net).....	2,059,131	2,521,829
	<u>\$ 8,177,720</u>	<u>\$ 10,616,841</u>

## STANDING COMMITTEE

## PROPERTY INVESTMENT STATEMENT

Property Investment at December 31, 1962.....		\$3,890,909,261
Capital Expenditures in 1963		
New lines and diversions.....	\$16,894,937	
Roadway improvements.....	36,784,387	
Large terminals.....	13,569,383	
Yard tracks and sidings.....	1,933,865	
Buildings.....	3,817,361	
Highway crossing protection.....	249,235	
Signals.....	3,384,432	
Roadway and shop machinery.....	1,685,641	
Other facilities.....	1,335,151	
Total—Road Property.....	79,654,392	
Branch lines.....	3,767,491	
Equipment.....	14,027,119	
Telecommunications.....	27,335,643	
Hotels.....	2,265,537	
		\$127,050,182
Government of Canada net expenditure on Canadian Government Railways.....		1,645,579
Additions—U.S. Lines—in accordance with I.C.C. Order No. 32153.....		545,500
Additions to property in 1963.....	129,241,261	
Deduction in respect of property retirements in 1963.....	55,651,273	
		73,589,988
Property Investment at December 31, 1963.....		\$3,964,499,249

## RECORDED DEPRECIATION STATEMENT

Recorded Depreciation at December 31, 1962.....		\$ 738,344,856
Add Provision for depreciation for the year		
Road property.....	\$ 50,097,625	
Equipment.....	45,058,777	
Other Physical Properties.....	3,892,679	
		\$ 99,049,081
Increase in recorded depreciation—U.S. Lines— in accordance with I.C.C. Order No. 32153.....		545,500
		99,594,581
Deduct Net Charges in respect of property retirements.....	36,889,512	
		62,705,069
Recorded Depreciation at December 31, 1963.....		\$ 801,049,925

LONG TERM DEBT  
BONDS

Rate %	Maturity (See Note)		Currency in which payable	Outstanding at Dec. 31, 1962	Transactions Year 1963 Increase or Decrease	Outstanding at Dec. 31, 1963
2½	Feb. 1, 1963	Canadian National 8 Year 1½ Month Bonds.....	Canadian	\$ 250,000,000	\$250,000,000	
5½	Dec. 15, 1964 (a), (g)	Canadian National 5 Year gnds.....	Canadian	198,711,000	639,000	\$ 198,072,000
3	Jan. 3, 1966 (b)	Canadian National 17 Year Bonds.....	Canadian	35,000,000		35,000,000
2½	Jan. 2, 1967 (b)	Canadian National 20 Year Bonds.....	Canadian	50,000,000		50,000,000
4½	Apr. 1, 1967 (g)	Canadian National 6½ Year Bonds.....	Canadian	72,300,000		72,300,000
5	May 15, 1968 (g)	Canadian National 9 Year Bonds.....	Canadian	55,800,000		55,800,000
2½	Sept. 15, 1969 (c)	Canadian National 20 Year Bonds.....	Canadian	70,000,000		70,000,000
2½	Jan. 16, 1971 (d)	Canadian National 21 Year Bonds.....	Canadian	40,000,000		40,000,000
5½	Dec. 15, 1971 (g), (h)	Canadian National 12 Year Bonds.....	Canadian	289,000	639,000	928,000
3½	Feb. 1, 1974 (e)	Canadian National 20 Year Bonds.....	Canadian	200,000,000		200,000,000
2½	June 15, 1975 (f)	Canadian National 25 Year Bonds.....	U.S.	6,000,000		6,000,000
5	May 15, 1977 (g)	Canadian National 18 Year Bonds.....	Canadian	84,600,000	450,000	84,150,000
4	Feb. 1, 1981	Canadian National 23 Year Bonds.....	Canadian	300,000,000		300,000,000
5½	Jan. 1, 1985 (g)	Canadian National 25 Year Bonds.....	Canadian	99,500,000		99,500,000
5	Oct. 1, 1987 (g)	Canadian National 27 Year Bonds.....	Canadian	168,675,000	1,550,000	167,125,000
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	1,228,398		1,228,398
5	Perpetual	Debenture Stock.....	Sterling	20,309	20,309	
Total Bonds.....				1,633,319,073	252,420,309	1,380,898,764

RAILWAYS, CANALS AND TELEGRAPH LINES

## LONG TERM DEBT—Concluded

Rate %	Maturity (See Note)	Currency in which payable	Outstanding at Dec. 31, 1962	Transactions Year 1963 Increase or Decrease	Outstanding at Dec. 31, 1963
GOVERNMENT OF CANADA LOANS AND DEBENTURES					
	Capital Revision Act: Jan. 1, 1972 Debenture.....	Canadian	100,000,000		100,000,000
	Canadian Government Railways: Advances for Working Capital.....	Canadian	16,983,762		16,983,762
	Financing and Guarantee Acts: Loans.....	Canadian	58,206,244	2,835,244	55,371,000
	Refunding Act, 1955: Loans for Debt Redemption.....	Canadian	33,836,787	204,163,213	238,000,000
	Total Government of Canada Loans and Debentures.....		209,026,793	201,327,969	410,354,762
	Total Long Term Debt.....		\$1,842,345,866	\$ 51,092,840	\$1,791,253,526
<p>Note: (a) Exchangeable on or before June 15, 1964 for 5½% bonds due Dec. 15, 1971</p> <p>(b) Callable at par</p> <p>(c) Callable at par on or after Sept. 15, 1964</p> <p>(d) Callable at par on or after Jan. 16, 1966</p> <p>(e) Callable at par on or after Feb. 1, 1972</p> <p>(f) Callable June 14, 1962 to June 14, 1966 at 101%; thereafter to June 14, 1970 at 100½%; thereafter at par.</p> <p>(g) Amounts of ¼% or 1% of the original issues may be purchased quarterly through Purchase Funds operated under the conditions of each issue.</p> <p>(h) issued in exchange for 5½% bonds due December 15, 1964.</p>					
SHAREHOLDERS' EQUITY					
GOVERNMENT OF CANADA					
	No par value capital stock of Canadian National Railway Company.....		\$ 359,963,017		\$ 359,963,017
	4% Preferred stock of Canadian National Railway Company.....		968,746,872	\$ 22,757,684	991,504,556
	Capital investment in Canadian Government Railways.....		439,267,036	1,645,579	440,912,615
	Total Government of Canada.....		1,767,976,925	24,403,263	1,792,380,188
	CAPITAL STOCK OF SUBSIDIARY COMPANIES OWNED BY PUBLIC.....		4,499,261	13,476	4,485,785
	Total Shareholders' Equity.....		\$1,772,476,186	\$ 24,389,787	\$1,796,865,973

## INVESTMENTS IN JOINTLY OPERATED RAIL AND TERMINAL FACILITIES

	Percentage Held	Investment at Dec. 31, 1962	Transactions Year 1963 Increase or Decrease	Investment at Dec. 31, 1963
<i>The Belt Railway Company of Chicago</i>				
Capital Stock.....	8.33	\$ 240,000		\$ 240,000
Advances.....		46,731	\$14,942	61,673
<i>Chicago &amp; Western Indiana Railroad Company</i>				
Capital Stock.....	20	1,000,000		1,000,000
Advances.....		7,113,869	27,132	7,086,737
<i>The Detroit &amp; Toledo Shore Line Railroad Company</i>				
Capital Stock.....	50	1,500,000		1,500,000
<i>Detroit Terminal Railroad Company</i>				
Capital Stock.....	50	1,000,000		1,000,000
<i>Northern Alberta Railways Company</i>				
Capital Stock.....	50	8,540,000		8,540,000
Bonds.....	50	16,902,500		16,902,500
<i>The Public Markets, Limited</i>				
Capital Stock.....	50	575,000		575,000
<i>Railway Express Agency, Inc.</i>				
Capital Stock.....	0.6	600		600
Advances.....		173,493		173,493
<i>The Shawinigan Falls Terminal Railway Company</i>				
Capital Stock.....	50	62,500		62,500
<i>The Toronto Terminals Railway Company</i>				
Capital Stock.....	50	250,000		250,000
Bonds.....	50	11,012,200	65,000	10,947,200
Advances.....		200,000		200,000
Total.....		\$48,616,893	\$77,190	\$48,539,703

## SOURCE AND APPLICATION OF FUNDS FOR THE YEAR 1963

Working Capital January 1, 1963.....	\$129,532,936
<i>Source of Funds</i>	
Provision for Depreciation.....	\$ 99,049,081
Issue of 4% Preferred Stock.....	22,757,684
Government of Canada in respect of deficit for the year....	43,013,517
Retained proceeds from Properties Retired.....	18,761,761
Victoria Bridge Track Diversion.....	13,980,827
Other (net).....	14,734,339
	<u>\$212,297,209</u>
<i>Application of Funds</i>	
Additions to Property Investment.....	\$127,050,182
Deficit for the Year.....	43,013,517
Decrease in Long Term Debt.....	51,092,340
	<u>\$221,156,039</u>
Net Decrease in Working Capital.....	8,858,830
Working Capital December 31, 1963.....	\$120,674,106

## INVENTORY OF RAILWAY EQUIPMENT

	On Hand Dec. 31, 1963
<b>Motive Power Equipment</b>	
Diesel Electric Units.....	2,114
Electric Locomotives.....	27
Steam Generator Units.....	108
Total.....	2,249
<b>Freight Equipment</b>	
Box, Flat and Stock Cars.....	73,316
Refrigerator Cars.....	4,919
Gondola and Hopper Cars.....	23,403
Caboose and Other Cars.....	2,043
Total.....	103,681
<b>Passenger Equipment</b>	
Coach Cars.....	677
Sleeping, Dining, Parlour and Tourist.....	550
Baggage, Mail and Express.....	1,274
Other Cars in Passenger Service.....	229
Total.....	2,730
<b>Work Equipment</b>	
Units in work service.....	9,145
<b>Floating Equipment</b>	
Car Ferries.....	6
Steamers.....	14
Barges, Tugs and Work.....	11
Total.....	31

## OPERATED MILEAGE AT DECEMBER 31, 1963

	Owned	Leased	Trackage Rights	Total
<b>Operated Road Mileage—first main track</b>				
Atlantic Region.....	3,859	1	83	3,943
St. Lawrence Region (including New England Lines).....	3,903	7	16	3,926
Great Lakes Region.....	3,303		16	3,319
Prairie Region (including Duluth, Winnipeg and Pacific).....	8,104		5	8,109
Mountain Region.....	4,066	35	85	4,186
Grand Trunk Western Lines.....	879	10	58	947
Central Vermont Lines.....	308		59	367
Total.....	24,422	53	322	24,797
Lines in Canada.....	22,829	36	202	23,067
Lines in United States.....	1,593	17	120	1,730
<b>Operated Mileage—all Tracks</b>				
First Main track.....	24,422	53	322	24,797
All other main lines.....	1,133		82	1,215
Spurs, sidings and yard tracks.....	7,073	16	1,652	8,741
Total all tracks.....	32,628	69	2,056	34,753

## PENSION TRUST FUNDS BALANCE SHEET AT DECEMBER 31, 1963

## ASSETS

*Current Assets*

Cash: In Banks—Current Accounts.....	\$	285,069	
—Time Deposits.....		900,000	
Deposits with Trust Companies.....		1,787,392	
		<hr/>	
		2,972,461	
Accrued interest on investments.....		4,167,468	
Accounts receivable:			
Canadian National Railways—current account.....		1,659,936	
Banks, Insurance and Trust Companies re Mortgages.....		394,746	
Other.....		26,481	
		<hr/>	
			\$9,221,092

*Investments*

Stocks—at cost.....(Market value \$ 62,333,607)	55,765,863		
Bonds—at amortized value...(Market value \$261,804,866)	282,625,280		
Mortgages—at amortized value.....\$143,065,760			
less holdbacks.....	77,081	142,988,679	481,379,822

*Canadian National Railways*

Acknowledged liability in respect of past service of employees.....	395,000,000		
		<hr/>	
			\$885,600,914

## LIABILITIES

*Current Liabilities*

Accounts Payable.....	\$	113,977	
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*Reserve for Pensions*

In respect of pensions in force and pensions accruing to active employees under the 1935 and 1959 Pension Plans.....	885,486,937		
		<hr/>	
			\$885,600,914

NOTE: The Reserve for Pensions includes the accumulated contributions of certain employees in service, with interest thereon, which are held in trust under the rules of the 1935 Pension Plan as follows:

Annuity Trust Fund.....	\$	12,945,901	
Supplemental Annuity Trust Fund.....		2,419,642	
		<hr/>	
			\$ 15,365,543

L. J. Mills,  
Comptroller

## PENSION TRUST FUNDS STATEMENT OF RESERVE AT DECEMBER 31, 1963

Reserve at December 31, 1962.....			\$845,599,085
<i>Addition to Reserve during the year:</i>			
Contributions from employees on account of—			
Current service.....	\$ 18,408,485		
Prior years' deficiencies.....	4,642,264		
	<u>23,050,749</u>		
Less refunds on termination of service, etc..	3,368,030	\$ 19,682,719	
Contributions by the Company.....		28,146,069	
Net earnings on contributions made by the Company and employees.....		<u>21,535,338</u>	
			<u>69,364,126</u>
			914,963,211
<i>Deductions from Reserve during year:</i>			
Pensions paid.....			<u>29,476,274</u>
Reserve at December 31, 1963.....			<u><u>\$885,486,937</u></u>

## AUDITORS' REPORT

To the Trustee,  
Canadian National Railways Pension Funds.

We have examined the balance sheet of the Pension Trust Funds of the 1935 and 1959 Pension Plans of Canadian National Railways at December 31, 1963 and the statement of reserve for pensions for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and related statement of reserve for pensions are properly drawn up so as to give a true and fair view of the state of the affairs of the Funds at December 31, 1963 and of the results of their operations for the year ended on that date according to the best of our information and the explanations given to us and as shown by the books of the Funds, and in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We further report that, in our opinion, proper books of account have been kept by the Trustee and that the transactions that have come under our notice have been within the powers of the Trustee.

McDonald, Currie & Co.,  
Chartered Accountants

February 25, 1964

## ACTUARIAL CERTIFICATE

This is to certify that the Reserve shown in the Balance Sheet of the Pension Trust Funds of Canadian National Railways, amounting to \$885,486,937 as at December 31, 1963, in my opinion, represented adequate provision for the accumulated liabilities of pensions then approved and in force, pensions awaiting approval and pensions accrued to the above date in respect of employees then in service under the 1935 and 1959 Plans, excluding pensions granted under prior Plans.

Denis R. J. George,  
Fellow of the Institute of Actuaries.

William M. Mercer Limited  
Montreal, February 21, 1964.

## STATISTICS OF RAIL-LINE OPERATIONS

	1963	1962	% Increase or Decrease
<i>Train Miles</i>			
Freight service.....	35,796,950	34,283,043	4.4
Passenger service.....	17,079,631	18,096,980	5.6
Work service.....	1,802,601	1,634,258	10.3
Total train miles.....	54,679,182	54,014,281	1.2
<i>Locomotive Miles</i>			
Freight service.....	36,116,058	34,545,765	4.5
Passenger service.....	15,131,531	16,072,350	5.9
Switching service—Road and Yard.....	17,868,774	17,947,807	0.4
Work service.....	1,845,157	1,657,702	11.3
Total locomotive miles.....	70,961,520	70,223,624	1.1
<i>Car Miles</i>			
Freight Service:			
Loaded.....	1,180,853,158	1,110,109,898	6.4
Empty.....	746,696,479	680,423,883	9.7
Other.....	12,753,719	14,257,575	10.5
Caboose.....	36,667,660	35,075,508	4.5
Passenger—Coach and Combination.....	2,710,376	3,231,400	16.1
	1,979,681,392	1,843,098,264	7.4
Passenger Service:			
Coach and Combination.....	38,557,790	39,278,731	1.8
Sleeping, Parlour and Observation....	39,811,267	40,601,819	1.9
Dining.....	9,005,292	7,948,251	13.3
Motor Unit.....	3,876,828	3,806,184	1.9
Other (baggage and express, etc.)....	70,663,805	79,132,838	10.7
Freight—loaded.....	1,100,731	1,423,952	22.7
Freight—empty.....	157,786	372,441	57.6
	163,173,499	172,564,216	5.4
Work Service.....	2,869,321	2,804,515	2.3
Total car miles.....	2,145,724,212	2,018,466,995	6.3
<i>Ton miles</i>			
Gross ton miles—all services (excluding passenger cars on passenger trains)...	89,026,289,000	80,715,356,000	10.3
Net ton miles—all services.....	40,751,668,000	36,110,915,000	12.9
Average Miles of Road Operated.....	24,709.57	24,753.38	0.2
<i>Freight Traffic</i>			
Freight revenue.....	\$ 552,221,071	529,307,712	4.3
Tons carried—Revenue freight.....	84,078,393	78,384,773	7.3
Ton miles—Revenue freight.....	40,171,173,489	35,595,425,349	12.9
Train hours in freight road service...	1,573,046	1,548,194	1.6
Averages Per Mile of Road:			
Freight revenue.....	\$ 22,348	21,383	4.5
Train miles.....	1,449	1,385	4.6
Total freight train car miles.....	79,549	73,827	7.8
Ton miles—Revenue freight.....	1,625,733	1,438,003	13.1
Ton miles—All freight.....	1,649,226	1,458,828	13.1
Averages Per Loaded Car Mile:			
Freight revenue.....	¢ 46.7	47.6	1.9
Ton miles—All freight.....	34.5	32.5	6.2

## STATISTICS OF RAIL-LINE OPERATIONS (CONTINUED)

	1963	1962	% Increase or Decrease	
<i>Freight Traffic (Continued)</i>				
Miscellaneous Averages:				
Revenue per ton.....	\$ 6,568	6,753	2.7	
Revenue per ton mile.....	¢ 1.375	1.487	7.5	
Miles hauled per revenue ton.....	477.8	454.1	5.2	
Cars per train—loaded.....	33.0	32.4	1.9	
Cars per train—empty.....	20.9	19.8	5.6	
Gross load—Freight trains (tons)....	2,485	2,352	5.7	
Net load—Freight trains (tons).....	1,138	1,053	8.1	
Gross ton miles per freight train hour	56,561	52,085	8.6	
Train speed—Miles per hour.....	22.8	22.1	3.2	
Diesel unit miles per serviceable day (excluding stored).....	234	217	7.8	
<i>Passenger Traffic</i>				
Passenger revenue.....	\$ 34,491,894	34,331,531	0.5	
Revenue passengers carried*.....	13,598,961	12,443,945	9.3	
Revenue passenger miles*.....	1,189,051,239	1,044,192,458	13.9	
Averages Per Mile of Road:				
Passenger revenue.....	\$ 1,396	1,387	0.6	
Train miles.....	691	731	5.5	
Total passenger train car miles.....	7,173	7,603	5.7	
Revenue passenger miles*.....	48,121	42,184	14.1	
Averages Per Car Mile—Passenger:				
Passenger revenue.....	¢ 41.3	40.2	2.7	
Revenue passenger miles*.....	14.2	12.2	16.4	
Miscellaneous Averages:				
Revenue per passenger*.....	\$ 2.536	2.759	8.1	
Revenue per passenger mile*.....	¢ 2.901	3.288	11.8	
Average passenger journey (miles)*..	87.4	83.9	4.2	
Percent on time arrival—selected principal trains.....	80.8	79.3	1.9	
Diesel unit miles per serviceable day (excluding stored).....	385	379	1.6	
<i>Operating Results</i>				
Total operating revenues per mile of road \$	30,852	29,827	3.4	
Total operating expenses per mile of road.	30,467	29,850	2.1	
Net railway operating income <i>loss</i> per mile of road.....	385	23		
*Note: In 1963 an improved method was used in compiling these statistics. For comparability the 1962 figures have been restated.				
			Increase or Decrease	
	1963	1962	Tons	%
<i>Revenue Tonnage Carried by classes of of Commodities</i>				
Agricultural Products.....	15,953,322	13,464,634	2,488,688	18.5
Animals and Animal Products.....	630,869	662,726	31,857	4.8
Mine Products.....	28,015,448	27,108,716	906,732	3.3
Forest Products.....	9,335,912	9,096,858	239,054	2.6
Manufactured and Miscellaneous.....	29,506,969	27,256,436	2,250,533	8.3
Total Carload Freight.....	83,442,520	77,589,370	5,853,150	7.5
All less than carload freight.....	635,873	795,403	159,530	20.1
GRAND TOTAL.....	84,078,393	78,384,773	5,693,620	7.3

A 25-YEAR SYNOPTICAL HISTORY OF THE CANADIAN NATIONAL RAILWAYS

Year	Gross Revenues	Railway Operating Revenues*	Railway Operating Expenses*	Net Railway Operating Profit or Loss*	Other Income*	Surplus or Deficit before Interest Charges	Interest on Debt	Surplus or Deficit	Freight Revenue Ton Miles	Freight Revenue per Ton Mile	Revenue Passenger Miles	Revenue per Passenger Mile	Average Number of Employees
	Millions	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Millions	c	Millions	c	
1939	\$207.2	\$199,517	\$187,091	\$12,246	\$ 967	\$13,393	\$53,488	\$40,095	17,084	.938	875	2.035	81,672
1940	251.5	243,099	207,115	35,984	356	36,430	53,305	16,965	21,532	.904	1,125	1.929	86,366
1941	308.8	299,230	243,766	55,464	1,174	57,178	53,162	4,016	27,200	.881	1,762	1.810	95,362
1942	380.6	369,745	295,306	74,439	2,294	76,733	51,670	25,063	31,729	.909	2,708	1.784	100,651
1943	446.0	433,527	353,158	80,369	7,460	87,829	52,190	35,639	36,327	.894	3,619	1.848	106,893
1944	446.8	434,149	366,680	67,469	6,032	73,501	50,474	23,027	36,016	.893	3,697	1.888	108,278
1945	439.7	426,233	358,972	67,261	6,505	73,766	49,010	24,756	34,600	.915	3,338	1.953	110,591
1946	407.6	393,246	361,634	31,612	6,111	37,723	46,685	8,962	30,812	.975	2,289	2.190	109,809
1947	446.0	430,512	406,335	24,177	5,864	30,041	45,926	15,885	32,945	1.040	1,845	2.332	112,801
1948	499.7	483,396	471,589	11,807	1,002	12,809	46,342	33,533	32,943	1.195	1,755	2.368	115,395
1949	509.4	491,478	484,728	6,750	161	6,589	48,632	42,043	30,922	1.276	1,621	2.671	116,057
1950	562.6	543,275	502,252	41,023	3,138	44,161	47,422	3,261	31,988	1.394	1,408	2.834	116,347
1951	634.1	612,802	585,615	27,187	5,958	33,145	48,177	15,032	36,435	1.369	1,611	2.947	124,608
1952	684.5	661,349	640,233	21,116	4,441	25,557	25,415	142	38,403	1.397	1,635	2.964	131,297
1953	707.7	680,669	660,248	20,421	9,199	29,620	29,376	244	36,678	1.509	1,539	2.984	130,109
1954	652.1	623,552	623,965	413	4,182	3,769	32,527	28,758	32,882	1.529	1,472	2.973	122,237
1955	693.9	664,613	630,140	34,473	9,249	43,722	33,004	10,718	35,677	1.511	1,464	3.001	119,430
1956	785.7	754,931	710,977	43,954	13,906	57,860	31,783	26,077	41,935	1.461	1,501	3.054	126,639
1957	764.4	732,427	735,679	3,252	10,651	7,399	36,972	29,573	36,674	1.601	1,499	3.124	124,620
1958	716.3	680,993	698,327	17,334	12,264	5,070	46,521	51,591	35,077	1.554	1,269	3.270	113,086
1959	751.9	712,976	719,000	6,024	11,234	5,210	48,798	43,588	35,542	1.613	1,272	3.159	111,538
1960	723.4	663,214	681,692	18,478	12,004	6,474	61,023	67,497	34,011	1.547	1,208	3.171	104,155
1961	745.5	677,380	693,605	16,225	11,393	4,832	62,476	67,308	34,723	1.480	1,076	3.234	99,564
1962	772.1	701,623	707,442	5,819	19,398	13,579	62,498	48,919	35,595	1.487	1,044	3.288	97,922
1963	800.0	725,181	720,170	5,011	16,179	21,190	64,204	43,014	40,171	1.375	1,189	2.901	92,571**

\* Restated to reflect inclusion of net income from Telecommunications Department in Other Income.

\*\* Based on a new method of counting effective January 1, 1963. On former method of counting, the 1963 average was 95,906.

The CHAIRMAN: I would point out at this time that there are microphones at the tables with which you are familiar. They are not live unless you are recognized by the Chair. So I hope, as in the past, there will be co-operation by all members of the committee. Let us proceed with this report immediately, section by section. We were very fortunate last year that we managed to stay within the bounds of each section and dispose of the financial items under the first heading "financial review", and to dispose of hotels under "hotels", and not have to come back later and intermix the different problems. So if it is the wish of the committee I would now call for a discussion on the first item. But before doing so I should have recognized the fact—although you did no doubt—that the Minister of Transport is with us this morning. I understood he would like to say a few words.

Hon. J. W. PICKERSGILL (*Minister of Transport*): I would like to apologize for being late. I am rather old fashioned, and I thought that the railway committee would be sitting in the railway committee room. But when I went there I found nothing but a lot of television equipment. After some time I discovered where the committee was sitting.

What I really asked the Chairman to let me say a word to you about is this: in view of what is going on in the House of Commons, I may be faced with a conflict of duties at various stages while the committee is sitting. Therefore, I hope that the members of the committee will excuse me if I am not here all the time. It would be because I am "there".

Mr. GRÉGOIRE: That is exactly what I said at the beginning of the sittings. I knew we were sitting and receiving Mr. Gordon. I knew that yesterday. I ask the committee—and I hope the minister will agree—that we do not sit while the house is sitting during the flag issue. These are two important discussions which would be going on at the same time. I suggest it is not normal that the Minister of Transport should ask us to consider these reports before the standing committee instead of before the sessional committee, when we never expected they would be dealt with at the same time as the flag issue was before parliament. I hope the minister will agree that we do not sit while the house is dealing with the flag issue.

The CHAIRMAN: I think we disposed of that question a while ago. If there is any change to be made now, surely it will have to be made by the house. And if the minister has a request to make such a change, no doubt he will do so at the proper time.

Mr. KINDT: Let me say that unless the minister is here, what is the use of holding these committee meetings? If we are going to be talking about branch line abandonment and other things, we want the minister to be here. If it is not important enough for the minister to be here, then why is it important enough for the rest of us to be here? We are not here for the fun of it. I suggest it is up to the minister to be here, because he is the one who is head of the department.

The CHAIRMAN: Order. We had a discussion about it a while ago, but I do not mind coming back to it if it is the wish of the committee. However the committee decided to sit this afternoon and again tonight. That was their decision. The house at a later time could change it. But I do not think we should reopen the discussion at the moment.

Mr. GRÉGOIRE: Would the minister not agree that the proposition I raised was a normal one?

Mr. PICKERSGILL: I do not know what rights I have here. I am not a member of the committee. I am only here as minister. I think it is the committee itself which should decide these matters.

Mr. GRÉGOIRE: I so move.

Mr. BALCER: Might we not have a decision? What was the result or decision taken? I am sorry I was late.

The CHAIRMAN: It was decided by the committee that we should sit after the orders of the day.

Mr. GRÉGOIRE: I move—

The CHAIRMAN: One moment, Mr. Grégoire, please. We decided to sit after the orders of the day this afternoon, and also this evening at eight o'clock.

Mr. GRÉGOIRE: I now move, seconded by the hon. member for York North, that the committee not sit while the house is sitting, but this motion to apply only during the discussion on the flag.

Mr. HORNER (*Acadia*): Are you suggesting that everything stops in parliament as a whole because of the flag discussion, and that we come to a complete standstill?

Mr. GRÉGOIRE: No. I am prepared to sit on this committee every morning.

Mr. PASCOE: Let us hear from the witnesses whether it would inconvenience them greatly or not. There are many important people here today.

Mr. GORDON: If you would like to introduce me as a witness on the flag issue in the house, I would be happy to accommodate you.

The CHAIRMAN: There is a motion before the committee put by Mr. Grégoire and seconded by Mr. Addison that this committee do not sit during the flag debate.

Mr. GRÉGOIRE: We could start at nine o'clock in the morning.

The CHAIRMAN: The motion is that we do not sit during the flag debate.

Mr. RHÉAUME: How did we arrive at the notice that was sent out?

The CHAIRMAN: The steering committee decided it.

Mr. RHÉAUME: The decision was taken by the steering committee?

The CHAIRMAN: Yes.

Mr. RHÉAUME: What are we doing now in changing it without notifying all the members of the committee? What kind of nonsense is that?

Mr. ROCK: Surely it is the custom for notices to be sent out indicating what is to be discussed by the committee. But I did not know until this morning that we were going to discuss the Canadian National Railways report. It is usual in the case of other committees that we receive a notice of what is to be discussed. I was surprised to learn only this morning that we would have such an important matter for discussion as the Canadian National Railways financial report or its annual report.

The CHAIRMAN: That is the only item of business before this committee at the present time, Mr. Rock.

Mr. GRÉGOIRE: Speaking to the motion, I would like to remind the Minister of Transport that when we agreed that this report should go before the standing committee instead of a sessional committee, he pointed out in the house that we would be made aware in advance when this report would be presented, so that changes in the personnel could be effected. I learned only yesterday that this committee was to sit this morning. I never received such a card. I only learned about it through *Votes and Proceedings* yesterday. I never received this card, yet I am a member of this committee.

The CHAIRMAN: I think it would be unfair to everybody. Your whip was notified and was present at the meeting of the steering committee. Are we ready for the question?

Mr. GRÉGOIRE: There was a commitment made by the Minister of Transport that we would be notified when we were to take up this report.

The CHAIRMAN: Are you ready for the question? All those in favour? Those against?

Motion negatived.

I declare the motion lost.

Now, let us proceed with the discussion on the first item, financial review.

Mr. GORDON: Might I make one short statement. I would like to introduce a pleasant note to start off and to say that in Ottawa today the Canadian National Railways have placed two new dining cars which have been introduced into the railways' passenger service. These cars are of a very distinct type. They produce pre-cooked type meals heated over a microwave oven to produce delicious hot meals in a matter of seconds. I would invite all members of the committee who wish to have lunch with us, to come to the Union Station any time after 12.30 p.m. You will then have an opportunity to eat a very fine meal and at the same time look over the new dining-car facilities which will be made available. Any member of the committee who would like to be there after 12.30 p.m. is welcome, and we would be very glad to receive him. We will accept all members of the committee if necessary, and I am thinking of those absent members, if you would like to bring them along.

The CHAIRMAN: Our first item of business is "financial review".

Mr. PRITIE: I would like to get right into the question of the long term debt that Mr. Gordon speaks about. I believe his idea is that he would like to have the government re-finance at a lower interest rate some of the Canadian National Railways bonds. Would Mr. Gordon point out to me, on page 25, what these bonds are, and the particular ones under the heading of long term debts listed there?

Mr. GORDON: Our long term debt, as you will see from page 25, is a debt accrued with issues outstanding, and it totals up to \$1,791,253,526. That is the amount of debt outstanding on which we have to pay interest.

Mr. PRITIE: Might I ask another question. In respect of the last two or three items, most of this debt seems to be for bonds which have been issued in the last 15 to 20 years. Is that not so?

Mr. GORDON: Yes.

The CHAIRMAN: Are there any other questions?

Mr. PRITIE: The interest rates do not seem to be very high in some cases. Do you expect to have lower interest rates, and to issue government bonds rather than Canadian National Railways bonds?

Mr. GORDON: We have made proposals to the government to effect recapitalization of the company. These proposals are not a matter of public knowledge and I cannot give particulars of the proposals until the government is ready to release them. It is a fact, as I have indicated at page 16, that:

Most of this debt can be identified as a legacy from the past through a deficiency in depreciation practices which restricted the company's ability to finance capital expenditures from internal sources.

That means that when our equipment became worn out, and other property, it had to be renewed, and the fact was that there had not been sufficient depreciation set up to provide the capital which would have enabled us to renew this equipment and other types of property. Consequently, we had to borrow it; and we had to borrow it by going to the public market and paying the price of that time, whatever the market rate might have been, when we floated these bond issues, in order to finance and provide the capital necessary for this rehabilitation of the railway.

In essence, our proposal is a representation to government that these depreciation practices of the past—what we call unrequited depreciation—

should now be recognized in such fashion as will relieve us from the burden of that interest applicable to the issues we have made on the market.

Mr. PRITTE: Is the point the fact that you have to borrow, not the rates of interest as such?

Mr. GORDON: That is right. You have the point exactly; it is the fact that we had to raise our capital by borrowing instead of being able to generate it out of our own resources.

One important point to keep in mind is that from 1956 onwards, with the adoption of what is called uniform accounting practices, practices that were authorized and regularized by the Board of Transport Commissioners, Canadian National Railways have made full provision for necessary depreciation in the future.

Our claim—if we can call it that—for relief is based on the fact that prior to 1956 these practices of providing for full depreciation had not been in force so that the unrequited depreciation—the term that we use in accounting jargon—applies to the past.

I have one final comment. If these depreciation practices had been applicable before 1956 on the same basis as those which have been applicable since 1956, then the results of the years prior to 1956, if there were a deficit, would have shown a larger deficit in terms of the amount of depreciation which then would have been taken into account. The money would have been available in depreciation reserves to buy new equipment when the time came for it to be purchased. So we want to wipe out the effect of the deficiency practices of the past.

Once these adjustments are made, the railway will be able to finance any future capital requirements out of its own resources.

*(Translation)*

Mr. GRÉGOIRE: Mr. Gordon, on page 20 of the report, we see, we realize nevertheless, on page 20 of the report, we realize nevertheless that your assets are equal to your liabilities. So, when you pay interest on the debt of the Canadian National, even—

*(Text)*

Mr. ROCK: On a point of order, Mr. Chairman, are we not still discussing the subject matter raised by Mr. Prittie?

Mr. GRÉGOIRE: Yes, I am discussing it.

The CHAIRMAN: We are discussing the financial review.

Mr. ROCK: So I may come back to the subject raised by Mr. Prittie?

Mr. GRÉGOIRE: I am on the subject raised by Mr. Prittie.

Mr. ROCK: You are turning it into something else.

Mr. GRÉGOIRE: No.

*(Translation)*

So if your assets are equal to your liabilities you pay interest on borrowed amounts which are represented by an asset of the Canadian National Railways.

*(Text)*

Mr. GORDON: Yes. Of course, any debt that we have outstanding in the hands of the public or owed to the government is a debt upon which we pay interest, and that is the interest to which I have been referring.

(Translation)

Mr. GRÉGOIRE: But that debt is represented by Canadian National assets? So you do not pay twice for old equipment and new equipment?

(Text)

Mr. R. T. VAUGHAN (*Secretary, Canadian National Railways*): Could you elaborate the point?

Mr. GORDON: I want to think about that.

Mr. VAUGHAN: Perhaps it would be helpful if the point were elaborated.

Mr. PRITTIE: Mr. Chairman—

Mr. GORDON: One minute; I would like to think about this. This is not an easy question to answer.

If the depreciation practices that I have outlined had been in force prior to 1956, then the deficits of the years applying back beyond 1956 would have been greater, and those deficits would have been paid to Canadian National Railways out of the public accounts of the year. In other words, the government makes good the deficit every year.

To the extent that full depreciation was not set up, the Canadian National Railways did not receive that money and therefore were not able to accumulate a reserve for the purpose of taking care of equipment and property, and so forth, that was worn out. That being the case, Canadian National Railways have had to borrow the money instead of getting money from the government. On the money borrowed, it has paid interest at the rates outlined on page 25. So it is paying interest on that outstanding money, but it is not paying it twice; it is only paying it in respect of the debt outstanding. However, here is a queer sort of twist in this because it could be said that if the Canadian National Railways had received the depreciation payments prior to 1956 they would have had that money in hand and would have been earning interest on it.

(Translation)

Mr. GRÉGOIRE: But Mr. Gordon, when one looks at the results of the past twenty-five years, for sixteen years you have had deficits of forty million dollars, sixteen million, eight million, fifteen million, thirty-three million, forty-two million, fifteen million and in the last few years, sixty-seven, sixty-seven, forty-eight and forty-three million dollars. Does that mean—you received those amounts from the government to make up your deficits—would that not balance the amounts which, in previous years, the preceding management did not provide for depreciation?

(Text)

Mr. GORDON: No.

(Translation)

Mr. GRÉGOIRE: Would that not be equal to the amount you set aside for depreciation the preceding years? Would it be less?

(Text)

Mr. GORDON: No. You see, Mr. Grégoire, the deficits recorded, to which you have referred, did not include a charge for depreciation to the extent which I have mentioned. In other words, if the depreciation charges were made in the way I have described, those deficits in each of those years would have been greater and then the greater amount would have been the amount we would have put into the reserve for depreciation.

To repeat, these deficits are not high enough to take care of the full depreciation that I mentioned.

(Translation)

Mr. GRÉGOIRE: One last question, Mr. Gordon, I have here the financial report of the Canadian Pacific for 1963. I see that in 1963 Canadian National had a surplus of twenty-one million dollars and the Canadian Pacific, 56.6 million dollars. Of course the interest or regular expenses of the Canadian National amount to sixty-four million dollars and those of the Canadian Pacific to sixteen million but the Canadian National received a subsidy in addition to those granted under the Freight Rates Act, the Canadian National receive a subsidy of twenty-nine million dollars and the Canadian Pacific does not receive one, and in addition the Canadian Pacific paid forty-three million dollars on income tax on their profits.

(Text)

Mr. GORDON: May I interrupt? You are referring to the subsidy payments which appear on page three. You are quite wrong in saying that the Canadian Pacific Railway does not receive those subsidies. They receive the proportion of the subsidy applicable to any of their operations, just as we do. They have their share of interim payments, for example; naturally, they do not get the Newfoundland subsidy because they do not operate there, but they get the freight rates reduction subsidy, the Maritime Freight Rates Act, the east-west bridge subsidy and interim payments. The Canadian Pacific Railway receives prorated subsidies in exactly the same way as Canadian National.

(Translation)

Mr. GRÉGOIRE: Even on the provisional subsidy and on the Act—

(Text)

Mr. GORDON: Yes, indeed, on the interim subsidy. The interim subsidy, you will recall, was \$50 million. The \$50 million was divided among all the Canadian railways; our portion of it was \$29 million, as you will see, and the rest of it went to Canadian Pacific Railway and some smaller railways such as Algoma Central and so on. The Canadian Pacific Railway received its full share of that interim subsidy.

(Translation)

Mr. GRÉGOIRE: Now, I also see that the Canadian Pacific pay taxes on the revenue derived from the company's profits, of approximately \$28,700,000, does the Canadian National not pay any taxes? In fact, how—

(Text)

Mr. GORDON: Just one moment. That becomes a question of fact. The Canadian Pacific Railway pays income taxes because it makes a profit. Canadian National Railways are also subject to income taxes and will pay them when it earns a profit, but one does not pay taxes in this country so far on deficits.

(Translation)

Mr. GRÉGOIRE: Mr. Gordon, if you will let me finish my question you will probably see what I mean. I am well aware that a company that is not making any profit does not pay taxes and if there is a deficit, usually the government does not take care of the deficit for a private company. So, the company pays \$28,700,000 in taxes and pays its shareholders amounts in the order of thirty-six million dollars last year. Is there any special reason why the Canadian Pacific can manage with this amount of profit to pay taxes and dividends to their shareholders, while the Canadian National manages to have a deficit of forty-three million dollars although they do not pay taxes, or profits or dividends, to their shareholders?

(Text)

Mr. GORDON: Yes, I think there are some very obvious reasons and it would take a good deal of discussion to go into all of them, but you must remember that the Canadian Pacific Railway—and this is point number one—earns profits on outside income from ventures other than the railway. One of the outstanding examples—

Mr. GRÉGOIRE: Canadian National Railways, too.

Mr. GORDON: No, we have nothing of that kind. We have not control of the Consolidated Mining and Smelting Company, for example; and the Canadian Pacific Railway obtains income from quite a number of other investments.

There is a second point, if I may continue, and this is the whole basis about which we are talking. If we have an acceptance of our proposals in regard to eliminating the difficulties in the deficiency of past depreciation practices, then I am predicting that Canadian National Railways will show a profit. That profit will be commensurate, so to speak, with the railway part of the Canadian Pacific Railway operations and we will pay income tax on the same basis as the Canadian Pacific Railway. But we have to eliminate this shadow of the past before we can put ourselves on a basis that can be properly compared with the Canadian Pacific Railway, and this is one of the main arguments that we are putting before government. We are saying that if we are to remove the confusion which is in the public mind about the comparison of Canadian National Railways versus the Canadian Pacific Railway, then we must put them on the same basis. At the moment they are not on the same basis and the depreciation practices, the accounting practices, are not the same, as you can see at a glance from the Canadian Pacific Railway report.

Have you a Canadian Pacific report there? If you look at the amounts in the balance sheet of the Canadian Pacific Railway in respect of the amount of depreciation you will see that their depreciation is much higher than ours relative to the total assets, which demonstrates the point, I think, that they have been able to accumulate depreciation over the years on a much bigger basis than we have. I have not the exact figure in my mind so I will just give it to you roughly—and I may be checked on this. If we had the same relative amount of depreciation in respect of our property investment account as has the Canadian Pacific Railway, our depreciation reserve would be pretty close to a billion dollars more than it is today.

Mr. J. L. TOOLE (*Vice President, Accounting and Finance, Canadian National Railways*): That figure is about right. It is pretty close to that.

Mr. GRÉGOIRE: That is what they have—\$1 billion.

Mr. GORDON: Our depreciation reserves would be at least about a billion dollars higher than they are today. That is the nub of our presentation, and that represents the deficiency in our depreciation reserves. If we had that amount of depreciation accumulated, our outstanding debt would be that much less.

(Translation)

Mr. GRÉGOIRE: Mr. Gordon, I see here that other revenues for the Canadian Pacific are twenty-one million dollars and for the Canadian National, sixteen million dollars. Now, the point on which I wish to speak is this: does the Canadian National ask the government to wipe off their debt completely and does the Canadian National begin all over again with its capital, that is, its assets, but with no debt so that the Canadian National will have no interest to pay?

(Text)

Mr. GORDON: No, we are only asking that the shortfall in our depreciation, as it applies to the past, should now be recognized in the sense that we should be relieved of the interest on that amount of debt and that amount only.

I cannot at the moment disclose what that amount will be because the government is still discussing the figures with us, but the amount we can approve in the course of our accounting discussions represents the shortfall in our depreciation, and then our proposal is that that shall be taken over by the government in respect of interest payments, and that will reduce our debt by that amount, and that only.

The CHAIRMAN: Gentlemen, I have Mr. Rapp, Mr. Horner, Mr. Rock, Mr. Balcer, Mr. Addison and Mr. Fisher listed.

Mr. PRITTE: Mr. Grégoire started to ask questions before I had finished my line of questioning, and I had one more question to ask.

The CHAIRMAN: We will come back to you, Mr. Prittie. I have a long list of members wishing to ask questions so I will give some of them a chance and we will come back to you.

Mr. RAPP, Mr. Chairman, my question is in reference to a statement made on page three in connection with the potash movement.

Mr. FISHER: I would like to raise a point of order here. We have started to discuss the whole question of Canadian National Railways' debt arising out of the financial review. Are we to complete that first? That is the area in which I wish to ask questions. I am interested in what Mr. Rapp is asking, but it does not move us on past this area.

The CHAIRMAN: Is your question on the first general financial review, Mr. Rapp, on page two?

Mr. RAPP: I wish to refer to page three.

The CHAIRMAN: Then let us wait for that. Mr. Horner, is your question in reference to page two?

Mr. HORNER (*Acadia*): My question concerns the financial review.

I gather, Mr. Gordon, from your remarks that your write-off in the fifties was not large enough to cover the vast depreciation on steam engines and equipment in general.

Mr. GORDON: It goes back beyond that.

Mr. HORNER (*Acadia*): It goes back beyond the fifties?

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): I do not see, looking at the table on page 32, the total amount of debt written in but I see the interest on the debt. It was sharply reduced in 1952.

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): In 1951 you were paying \$48 million interest and in 1952 that was sharply reduced; it went down to \$25 million. From that time on it has built up again to, in 1963, \$64 million. Therefore I would imagine that the debt also has climbed largely since 1952.

Mr. GORDON: The debt arises out of the fact that we did not have reserves for depreciation applying to the past. If we had had those, we would not have had to borrow.

Mr. HORNER (*Acadia*): But I am saying that most of the reserves for depreciation should have been taken out since 1952.

Mr. GORDON: No.

Mr. HORNER (*Acadia*): What is the total debt of Canadian National Railways now in your accounting system?

Mr. GORDON: The total debt which we have just mentioned and which is shown on page 25, long term, is \$1,791 million.

Mr. HORNER (*Acadia*): How much was it in 1952 after the reconsolidation?

Mr. VAUGHAN: About \$1,400 million. Before capital revision.

Mr. GORDON: It was \$1,400 million. The adjustment at that time was about \$736 million. You see, there was a Capital Revision Act in 1952 which provided relief to some extent at that time but it did not cover this point of the unrequited depreciation.

Mr. HORNER (*Acadia*): This may be true with regard to your under depreciation during the fifties or prior to the fifties, but I say that quite a lot of it was during the fifties. Do you not believe that if this was written off you would have a very inaccurate comparison with regard to management? You say in your last paragraph that unless it is written off you will have an inaccurate reflection on management and employee efficiency, but would you not have a very inaccurate bookkeeping system if you wrote off all debt charges?

Mr. GORDON: If we wrote off all debt charges, yes; but that is not what we are proposing to do. We are proposing to recognize the shortfall of depreciation as it applies to the fact.

Mr. HORNER (*Acadia*): What would be the proportion of this shortfall?

Mr. GORDON: This is my problem. These representations have been made to government. I do not think it is right for me to start giving details of these proposals until government is ready to disclose them. There has been promised a capital revision act which, we hope, will come before you this session. It has been mentioned several times in the House of Commons as legislation the government will bring in. At that time there will be full disclosure of all particulars of the figures about which we are talking just now. I do not want to appear at all reluctant about disclosing the figures, but I do not think I can do that until the government proposals are put in the form of legislation.

Mr. FISHER: On a point of order, Mr. Chairman, this is a very important point and I would like to point out that Mr. Gordon has in a sense taken to the hustings on this very issue in the sense that he has given speeches in several places, and I have a letter here which he wrote to the *Montreal Star* setting out Canadian National Railways' point of view in this matter particularly because it was raised by them in an editorial. Mr. Crump is on record as being very critical of this revision and there have been other criticisms. I do not know where we can go on this matter on the basis of the fact that Mr. Gordon cannot give us information about details. It is now a public issue. I would assume from the fact that he has put his position so strongly in the last part of his report that Mr. Gordon wants to raise it before the committee, and I just cannot see where we can go unless we can have a little more detail about the suggestions. Either it must be agreed that we ought to discuss the whole question of the management of Canadian National Railways somewhat in the abstract and its approach to depreciation practices in the past, or—

Mr. GORDON: I would say on that, Mr. Fisher, that the correct situation is that we are now discussing the question of the principle, whether or not an adjustment of the kind I have outlined is advisable. The letters which I have written and the speeches which I have made have been touching on the principle.

Mr. FISHER: You are prepared, and the minister is prepared—because I think the minister has an interest in this—to have as complete a discussion as possible, the only caveat being that you do not wish to go into the actual details of the proposal?

Mr. GORDON: I think that is a fair statement but I do not know just what I am committing myself to in that because, as we discuss it, we may get into other areas. However, as you have mentioned the letter to the *Montreal Star*, I think it would be helpful if I were to read one sentence of that letter which covers the point you make:

In short summary of a complicated question, the depreciation account was far short of providing the capital funds for the replacement of old equipment with a modern type and the addition of new mechanisms in various forms of automation. Our current accounting practices since 1956 make normal provision for replacement, but in the years prior to that the amounts charged to operating account for this purpose have proven to be grossly inadequate. Consequently, what we are trying to have recognized is the shortfall in past provisions for depreciation which have forced Canadian National to add to its interest-bearing debt to finance necessary replacements.

That is it in a nutshell as far as it stands right now. The question of detail and how it will be adjusted in accounting practices will, I suggest, await the time when the specific proposal comes before you, however it is done, in the manner of putting forward legislation to the house.

Mr. HORNER (*Acadia*): In a sense, in the last paragraph you are asking the committee to recommend to the government, in one way or another, that this shortfall which should have been written off or should have been paid before, should be written off now to some extent? You are asking this committee, I gather, in the hope that this government will go ahead with your plans, yet you are not informing the committee how much this will lower the debt charges, or anything else.

Mr. GORDON: No.

Mr. HORNER (*Acadia*): I think we should have more information.

Mr. GORDON: I am not aware that I am asking the committee to recommend anything. In our annual report I am simply stating the point of view of management, and I try to point out why I think this is an advantageous thing for Canadian National Railways and the country generally. I certainly would like you to recommend that.

Mr. HORNER (*Acadia*): Certainly.

Mr. GORDON: I should like you to recommend it but I am not asking you to recommend it because I do not think you should until you get the detail of the proposal.

Mr. HORNER (*Acadia*): That is the very point I am trying to make.

Mr. GORDON: The proposal can only be dealt with by you as a member of parliament. When it is made to you you will be asked for the enacting legislation and then you will get full particulars.

Mr. HORNER (*Acadia*): You are before us now and we can get much more detailed information from you rather than when this is before parliament.

Mr. GORDON: I assume there will be a committee examination.

Mr. HORNER (*Acadia*): You are asking us to approve this report.

Mr. GORDON: No.

Mr. HORNER (*Acadia*): You are making recommendations to the government in this report.

Mr. GORDON: Wait a moment. There has always been misunderstanding about this and I think I might as well try to clear it up now.

This is the annual report of the Canadian National Railways and it is not approved of by anybody but my board of directors and myself. This is our report. You cannot change a word of it even if you wanted to because it is our report.

Mr. FISHER: We can comment upon it.

Mr. GORDON: Certainly you can comment, by all means. That is the reason it is here before you.

Mr. HORNER (*Acadia*): Surely it has been the custom for this committee to approve of the report.

Mr. GORDON: I should be only too glad to have you approve of it, but you said that I am asking you to make a recommendation. I am not asking you to do that. This is our report.

Mr. GRÉGOIRE: Mr. Chairman, on a point of order, when Mr. Gordon says that we cannot amend this report I should like to suggest to him that when the estimates of the Department of Transport are presented to the House of Commons we will at that time be able to amend the report.

Mr. GORDON: You cannot amend the report. I will read what the law says.

Mr. GRÉGOIRE: Perhaps you will allow me to complete my statement.

The CHAIRMAN: Order.

Mr. GRÉGOIRE: Perhaps I can finish my statement, Mr. Chairman. I think when the estimates of the Department of Transport are before the House of Commons any member can move that the amount to be spent by the C.N.R. be reduced to \$1.

Mr. GORDON: Certainly and that would then be our budget.

Mr. GRÉGOIRE: That would be an amendment.

Mr. GORDON: Yes, but it would not change this report.

Mr. GRÉGOIRE: That is the kind of amendment I had in mind.

Mr. GORDON: The law says that the Board of Directors shall make a report annually to parliament setting forth the results of their operations, the amount expended on capital account in respect of National Railways and such other information as appears to them to be of public interest or necessary for the information of parliament with relation to any situation existing at the time of such report, or as may be required from time to time by the governor in council.

What I am saying is that this is the report of the Canadian National Railways and no one can change it. When you get our capital budget before you, in respect of which we are asking for approval of expenditures, then you may change it if you wish but you cannot change this report. That is the point I am making. This is our report and that is the end of it. If I may express it that way.

Mr. ROCK: Mr. Chairman, I think we should have more order. When Mr. Prittie was asking questions I wanted to interject a question on this same subject but I was not allowed to. Now everyone is interjecting and I do not think it is fair.

The CHAIRMAN: Order, please. On my list I have the names of Mr. Horner, who has the floor, then Mr. Balcer, Mr. Rock and Mr. Addison. If you will bear with me all members of this committee will have a chance to ask questions. I want to be fair to everyone and I should like to have the same co-operation that I usually have, and I will thank you very much for giving me that co-operation and refraining from raising so many slight points of order.

Mr. Horner have you concluded your questions?

Mr. HORNER (*Acadia*): I have concluded for the time being.

Mr. BALCER: In view of what Mr. Gordon has said in his last few remarks I am not sure whether he is in a position to answer my question. I understand that we are here to discuss the principles of his refinancing proposal but that we should not ask the witness to disclose specific amounts or indicate specific things of that nature because the proposal is now being discussed by the government. I wonder whether Mr. Gordon can tell us that if he succeeds in getting the government to move toward this refinancing proposal the amount involved will be sufficient to ensure that the C.N.R. will be in a fair position and will be able to cover the type of deficits that have been shown in the last few years? Does this amount consist of \$40 million, \$10 million or \$5 million? Can you give us some indication without being specific?

Mr. GORDON: I will go this far and say that the whole basis of our proposal is that we be granted sufficient relief based on our being able to show from our books the amount that we say was the short fall in depreciation. We have to establish the amount on something and I say our proposal is based on that figure, and being based on that figure we hope to be able to persuade the government that the amount of relief will be sufficient to ensure that the Canadian National Railways will eliminate its deficit.

I am pleased you raised that question because there is another point involved. I do not want to leave the impression, and I realize that perhaps I may have, that our recapitalization proposal before government is based solely on this one item. There are other factors arising out of previous legislation involved and you may recall that the 1952 legislation was put through with the clear understanding that there would be a review in ten years. There are several factors in that legislation, which expired in 1962 and which has been renewed year after year, which also will be presented. The basic point I mention is this. The amount of relief the government will provide if and when it accepts our proposal will allow us to show a surplus in the future.

Mr. BALCER: That being the case I wonder whether you can give us a figure in respect of this short fall in the depreciation operation? Have you that figure?

Mr. GORDON: That is the basic figure which effects the whole proposal.

Mr. BALCER: I am sure you know what that figure is, and I am sure that the government knows the figure as well.

Mr. GORDON: Let we answer you in this way.

Mr. BALCER: Perhaps I should direct my question to the minister.

Mr. GORDON: I do not think the minister can answer your question and I will tell you why.

An hon. MEMBER: You underestimate him.

Mr. GORDON: What I mean is this we are still involved in very deep, detailed, complex and technical discussions in respect of how to establish the figure. Those discussions are taking place between the accounting officers of the finance department, the transport department and the Canadian National Railways. I think I have proved the figure but I cannot say that the highest level has proved what the figure will be. There is still a number of technicalities involved but I hope to have it settled very, very soon. There have been intensive discussions going on.

I do not think I am going too far in saying that there is a range in respect of the figures. There are two or three ways in which the formula can be looked at. This is an accounting formula having to do with the manner of depreciation in respect of all the different types of property. After all, we are not only considering locomotives but other kinds of property in our inventory as well which runs into thousands of items. It has been a tremendous job to arrive at

these methods, and a tremendous job of analysis. Again there are technical discussions in respect of whether or not this is the right way of looking at it or that is the right way of looking at it. We will have to arrive at an agreement in respect of the formula but at the moment there is still a range of figures being considered.

Mr. BALCER: Has the government accepted the principle of your proposal?

Mr. GORDON: I understand they have and perhaps the minister will be kind enough to confirm that.

Mr. PICKERSGILL: If I may be permitted to say so, it seems to me that the Prime Minister's statement in the House of Commons that this bill would be one of those we will attempt to introduce during the course of the present session is the clearest evidence that the government does accept the principle that the depreciation practice of the two railways should be the same and if it is not the same thing you cannot compare their results. I can confirm what Mr. Gordon says, that when you are going back into the past some considerable distance in some cases the accounting problem is a huge problem. There is not yet agreement even among the experts who are advising us and advising the railway. I know they are working very hard in this regard but ultimately it is up to the deputy minister of finance and the Minister of Finance and I do not need to tell any of the members of this committee that the deputy minister and the minister have been involved with quite a number of other very complicated financial problems besides the problems of the Canadian National Railways, but they are trying to ration their time and consider these problems whenever they can. If they had no other problems to solve, I think this problem would be solved in a very short time. I am hoping that it is going to be solved soon.

Mr. GORDON: I think I should remind you also in respect of the approval of the government, that the government in 1962 also said there would be a capital revision of the C.N.R., so I have the approval, I hope, of two governments.

Mr. PICKERSGILL: I am hopeful that Mr. Balcer will support the bill.

Mr. KINDT: I should like to ask a supplementary question.

Mr. ROCK: I have the floor.

Mr. KINDT: My question deals with the same subject.

Mr. ROCK: The supplementary question I wished to ask dealt indirectly with the subject being discussed by Mr. Prittie.

Mr. Gordon, in 1939 the Canadian National Railways had only \$53 millions interest on debt, and in 1963 it was \$64 million. In the past you seemed to have blamed some of the financial ills of the C.N.R. on the fact that you took over old bankrupt railways incurring their debts and interest rates. You have suggested that for those reasons you had the financial ills of today. I should like to know the amount of interest involved at the time the C.N.R. took over these bankrupt railways in Canada so that I can make a comparison. Was the amount of interest \$10 million per year, \$20 million per year, or \$30 million per year at that time?

Mr. GORDON: In the 1952 capital revision which attempted to deal in part with what you have outlined, the amount of interest relief at that time was, approximately, \$23 million or \$24 million, if my memory serves me correctly.

Mr. ROCK: You did receive some relief from the federal government?

Mr. GORDON: In 1952 the adjustment was made in our accounts transferring the interest bearing debt into preferred stock. That recognized the old outstanding debt to which you have referred, but this did not touch the depreciation question.

Mr. ROCK: I quite understand that, but who is now paying the interest that is still owing on that capital of the past? Is it still being paid by the C.N.R. directly, or the government?

Mr. GORDON: No, but it would find its way into the government accounts.

Mr. KINDT: I should like to ask one further question in respect of this approach to the capital structure of the Canadian National Railways. Do you feel there will have to be some write-off, and, if there is to be a write-off is that going to be shifted to the public debt? In a sense it is there now, of course.

Mr. GORDON: Again, some of the terms become very confusing. In the normal sense in the financial world if you talk about a write-off of debt it is construed to mean that the debt is cancelled.

Mr. KINDT: Right.

Mr. GORDON: That is not what is proposed. There will be no write-off in that sense. No one is going to lose any money in the sense that the Canadian National Railways bonds will change value. They are going to be as good as they ever were. What will happen is that the bonds held in the hands of the public will remain in the hands of the public until they mature, at which time they will be paid off. We are seeking a rearrangement of our own capital structure on such a basis that it relates to any other investment in the system.

Mr. Pickersgill, I am afraid that I am being drawn more and more, as you will see, perhaps, into the detail, but as Mr. Fisher has said, I have gone a long way already. The effect of the change will be that when these proposals are agreed to, the responsibility for the interest payments on the outstanding debt as it is matched up against the depreciation short-fall will be assumed by the government.

Mr. KINDT: You are not only referring to interest, but also to principal?

Mr. GORDON: I am referring to principal as it matures, yes.

Mr. KINDT: Yes.

Mr. GORDON: Then it will be transferred from our debt into our equity stock position.

Mr. FISHER: Mr. Gordon, you took over the C.N.R. in what year?

Mr. GORDON: No, I cannot subscribe to that statement. The C.N.R. took me over in 1950!

Mr. FISHER: You were the president of the Canadian National Railways during the years including the time of the last capital revision?

Mr. GORDON: Yes, I started on January 1, 1950.

Mr. FISHER: I should like to place a criticism on the record, Mr. Chairman, of the proposal that is put forward here, and then I should like to hear Mr. Gordon's comments. In fact, I should like to put two criticisms on the record.

The first is a criticism made by J. L. McDougall which appeared in the *Toronto Globe and Mail* of April 9, 1964. I am going to read the central portion of it. That statement reads as follows:

The facts are that C.N.R. has already had two capital reorganizations, one in 1937 and one in 1952. The first cancelled what were in essence paper claims, but the second was substantial. It exchanged \$736 million of interest-bearing debt of Canadian National for 4 per cent preferred stock. There was no suggestion that these securities did not represent tangible assets; but the securities had been acquired for government account during the war and they were quietly neutralized in this fashion. Secondly, \$100 million of advances to the railway was converted into a 20-year debenture on which no interest was to be payable for the first 10 years. Thirdly, an agreement was made under which the government

would purchase additional preferred stock to the extent of 3 per cent of gross revenues up to 1960. In other words, government hasn't saddled the C.N.R. with debt charges, it has already relieved it of a major share of all debt accumulated up to 1952.

This drastic reduction in C.N.R.'s obligations was supposed to give the management a chance to prove itself as an economic organization; and it is fair to suggest that it originated with that management. The sequel is that this management then stepped out with an enormous program of capital investment despite the unattractive prospects for further investment in the railway property, not in Canada alone, but everywhere throughout the world.

In the 11 years 1952-62 inclusive, the net increases were: In shareholders' capital, \$255 million; in funded debt held by the public, \$1,018 million; in government loans held as active assets, \$88 million; total \$1,361 million.

What is there to show for this enormous outpouring of capital? In the four years 1948-51 inclusive the railway averaged a bit under \$24 million of income available for fixed charges. (The annual figures being 12.5; 6.2; 44.1 and 31.7 million respectively). In the four years 1960-63, when one should expect that this capital would have begun to bear fruit the average amount available for fixed charges was \$10.5 million (the annual figures being 1.5; 5.5; 23.3 and 11.8 million respectively).

And now the people who have applied the public resources so unproductively are shamelessly arguing that all past debts should now be wiped out in order that they may repeat the process!

I do not agree with that statement, but I think it is important that it be placed on the record if we are going to have an intelligent discussion in this regard.

Mr. GORDON: Mr. Fisher, would you care to read the last paragraph which is even more critical? I should like to bring out the points he mentions there.

Mr. FISHER: Yes. It states:

The long-run interest of the country demands that Canadian National be sold and so compelled to stand on its own feet. The present executive corps recommended this arrangement. They were supposed to lay out the money so that it would be productive. If they have failed, let them live with that failure and try to retrieve as much as they can. And even if they are going to be let off, let them come forward manfully and tell us why their plans failed and why they should be trusted to make meaningful estimates in the future.

I should like to put one further brief remark credited to the president of the Canadian Pacific Railway on the record. This quotation is from the *Toronto Globe and Mail* of May 7, 1964, and states:

Over-indulgence toward the Canadian National Railways could threaten private enterprise in the transportation field, N. R. Crump, president of the Canadian Pacific Railway Co., said at the company's annual meeting yesterday.

Mr. Crump said the C.N.R. has made new proposals in the past two years for further writeoffs of debt, and that the C.P.R. is concerned about these, both as a competitor and as a taxpayer. He said that the C.P.R., as a taxpayer, contributes to public funds from which the crown owned C.N.R. finances its capital expenditures on plant and equipment and from which it draws to meet annual deficits.

These two statements give us a type of criticism in addition to the letter that I believe you sent to the *Montreal Star* as a result of an editorial which appeared in the *Montreal Star* on February 15, 1954. Your letter to the *Montreal Star* appeared in the *Star* on March 17, 1964.

Mr. GORDON: Actually my letter appeared in the *Montreal Star* on February 17, 1964.

Mr. FISHER: What I am trying to suggest, Mr. Chairman, is that over the last four or five years I have made a point in this committee to bring attention to the fact that year after year the approach of the Canadian National Railways has been that we are really not in a sound position to criticize the effectiveness of the management of the C.N.R. and that we must look at it over a long term. Mr. Gordon has had 14 years experience with the Canadian National Railways and he is now rapidly approaching his second capital revision of a substantial kind. He is now coming up to his second capital revision of a substantial kind and he is hinging it all upon a mistake; if not a mistake, a wrong depreciation practice which became apparent, at least in terms of any rectification, in 1956, six years after he took over, and we have the situation where a similarly large competitor in the field was also out in the public domain arguing against the points put forward by him. In view of this I feel he should present us at this time with a clear answer to the criticisms made by Mr. Crump in this matter. In view of the line of approach of Professor McDougall, who has been a long term proponent of the C.P.R., I am sure these are the C.P.R.'s views he has in his letter and I think we should have a clear answer for the record to these criticisms and allegations, which we have not received to date in the questioning.

Mr. GORDON: Yes, but that is a large assignment.

As you point out, Professor McDougall's letter is a letter written by a man whom you have to think of as a witness when he makes a reply or any statement; Professor McDougall has been closely associated with the Canadian Pacific Railway throughout his life and has appeared for them as a witness in many proceedings before the board of transport and otherwise.

I cannot take his letter in detail because it would take me all day. I think it is better if I turned away from the letter to Mr. Crump's statement which basically and essentially has the same kind of approach.

Mr. FISHER: Yes.

Mr. GORDON: I think to do that I might as well put on the record what Mr. Crump said.

First of all, Mr. Crump made a statement in an address to the shareholders of the Canadian Pacific Railway Company on May 6, 1964, and again he is making references to Canadian National Railways proposals for re-capitalization on what he assumes they are because he does not know the actual details of the proposals. However, he made these statements, among others, and I want to quote them:

Within the past two years new proposals have been advanced by the Canadian National Railways for a further write-off of that company's debt. Your company is concerned in this matter both as taxpayer and as competitor.

As I said before, the C.P.R. obviously has no clear concept of what the proposals are because they have not seen them. The proposals made to the government, as I said, are still on a confidential basis. He talks about a further write-off of the company's debt. There is no further write-off of it. I have said that most of our debt is in the form of bonds that are held by the public and it will remain there until it matures in the normal course and is paid off. We are

seeking a re-arrangement of our capital structure so far as it relates to the government's investment in the Canadian national system. This has been done in order to obtain some relief from the crushing burden of debt charges which make the annual profit and loss account such an inaccurate reflection of management and employee efficiency.

He went on to say:

As taxpayer, your company contributes to public funds from which the national railway finances its capital expenditures on plant and equipment and from which it draws to meet annual deficits.

The Canadian National pays all the same taxes as the Canadian Pacific and, in particular, is liable for income taxes at the same rates as Canadian Pacific. This was decided back in 1952 when the exemption of certain crown companies from income taxes was withdrawn. The unfortunate fact, as I mentioned, is that the Canadian National has not earned a taxable income since becoming subject to income tax in 1952 and this is largely due to the excessive interest charges it has had to bear relative to its need for large new investments since that time. As a taxpayer, the Canadian Pacific is no different from any other large Canadian corporation including the Canadian National.

Then, he says:

As competitor, your company, like every other private transport operation in Canada, must try with its own resources to match the facilities of the government owned system paid for out of public funds.

So far as rates are concerned, no competitive rates have been set by Canadian National that have not been the result of a joint conference. It should be recognized that in the past the general rate levels, authorized by the board of transport commissioners, were set with the Canadian Pacific as a yardstick railway and that these rates reflected the cost of money to the Canadian Pacific without regard to Canadian National's financing costs.

With regard to facing competition from "the facilities of the government owned system paid for out of public funds" there should be no fear on this score. If Canadian National is recapitalized it will have access to the same sources of funds as Canadian Pacific, and that is what we want. We want to get it on the basis that Canadian National will finance itself out of internally generated funds from depreciation provisions and equity capital. We cannot get it on present day basis until we wipe out the effects of the basis. But, Canadian National will be on the same footing as Canadian Pacific except that Canadian National's capital expenditure program still will have to pass government scrutiny. And, this is a scrutiny which is far more detailed and difficult than that applied by Canadian Pacific shareholders. No Canadian Pacific shareholder gets up and asks management to justify themselves as much as I have to here. Now, I do not object to it but it is a fact of life. The proposed capital expenditures of the Canadian National receive the most careful scrutiny by our own board of directors before being recommended for inclusion in the capital budget that is presented to the government for approval. We have to sell it to the government before we can get an order in council, and any expenditure which is optional to the management in that it is a new method of doing business or an expenditure which is not required to continue the existing structure is not approved unless the requirements of a good rate of return on investment are met. In addition, any expenditures which are required to keep the plant in operation, such as new bridges, culverts, and so on are approved only after exhaustive studies of the existing physical condition of the facility, of new technological developments, and of various alternatives available.

Now, the capital expenditures of Canadian National have covered the whole rehabilitation and modernization programs following world war II. They have permitted the Canadian National to compete successfully for new

traffic and to regain a great deal of traffic which had been lost. They kept the revenues up and the costs down and on no occasion has there been in my recollection any serious objection to any capital expenditures incorporated in our annual budget. I say that only to indicate that management of Canadian National only puts forward those items which they can justify and obtain approval of after very careful examination. So, regarding Canadian Pacific's ability to match Canadian National's facilities, Canadian National's test of the worth of the new facilities is at least as complete as Canadian Pacific's and it is Canadian National's plan that the financing of these facilities will be on as equivalent a basis as is feasible with that of Canadian Pacific. Then, this statement was made:

No private business can survive in competition with crown corporations which are indulged, not only with immunity from the consequences of deficiencies in their operations, but with cost-free capital.

If Canadian National has indulged in anything it has been kept a great secret from me.

Mr. FISHER: Then why would Mr. Crump make the statement?

Mr. GORDON: I do not know. I have not talked to him about it. However, I might say, and perhaps I will get myself into trouble, which I do at least once every time I appear before this committee, that I am perfectly certain Mr. Crump did not write the statement.

Mr. PICKERSGILL: You are becoming a parliamentarian.

Mr. GORDON: Perhaps I had better let that pass.

There is no suggestion in our capital revision proposals that Canadian National be placed in a position where it can obtain cost-free capital. The objective is to establish a capital structure that will correct some of the deficiencies arising out of practices that were followed in the past.

I took note of your statement in which you indicated if not a mistake, a wrong depreciation practice was followed. It is not fair to say that about past management. What I am saying is the fact that these depreciating practices that were then in force were so recognized and were argued on the basis a crown company did not need to set up depreciation because they could get the money. My belief is that that sort of thing should be corrected and to have a proper comparison with Canadian Pacific we should get our accounting on the basis where there can be a correct comparison made. We never will get a proper comparison so long as we follow different types of depreciation practice. You referred to the fact that this happened after the start of my term in office. I would ask you to remember that the uniform classification of accounts was not adopted officially through the Board of Transport Commissioners until 1956, and there were some years of discussion before that. It was only after the adoption of the uniform classification of accounts that the actual results became so apparent as to what our depreciation practices had been.

Our objective is to correct some of the defects arising out of the past because funds for capital expenditures in respect of all private enterprise companies—normally are provided for internally generated sources and from outside borrowings. The chief source of internal funds is the annual amount of depreciation that is set aside out of profits and unless depreciating accounting practices are followed the company has no alternative but to borrow the money at interest from outside sources. This is the situation that Canadian National found itself in when large capital expenditures were made to meet the post war competition from automobiles, pipe lines, ships, trucks, airplanes and so on. We only commenced providing for depreciation in a broad way in 1956, and

our accounts have been in accordance with the mandatory provision by the Board of Transport Commissioners with the issuance of the uniform classification of accounts for railways. In our capital revision proposals we are trying to obtain recognition of the short-fall in past provisions for depreciation which have forced Canadian National to add to its interest bearing debt to finance the necessary replacements of assets.

Canadian Pacific did not have this same problem—and I want to be careful what I say about the C.P.R.; I am not bearing testimony for them. Perhaps I will say that I understand the C.P.R. did not have the same problem because over the years it has been building up its depreciation reserves out of earnings and the charging of this type of expense has had an important advantageous effect on the income tax payments by that company. In addition, it provided the company with a large part of the capital, free from interest, which it needed to finance its capital expenditure programs.

The statement refers to the Canadian National's "immunity from the consequences of deficiencies in their operations" and claims that no private business can survive in competition with crown companies who possess that quality. If Canadian National is placed in a position where small regular annual profits are capable of accomplishment, it will not be immune from the consequences of deficiencies in its operations. It will be operating in a commercial climate with a normal financial structure and it is fully expected there will no longer be any need for payments to be made by the government to cover Canadian National deficits.

This is the point I particularly want to stress. The only real urge for Canadian National management to keep its competition within the range of sound management is pride in its accomplishment. If the Canadian National is doomed to perpetual deficits, this pride will disappear and slackness is sure to follow. So long as Canadian National tries to retain good business principles in struggling to show a return on its efforts and resisting attempts to foist unprofitable or unnecessary operations on it, then it will continue to be a fair competitor, although a tough one as it should be. But, let its efforts be fruitless in respect of generating a pride in the management and the organization generally, then fairness in competition will go out of the window and expediency may well be the substitute for it. This, I suggest to you, will be bad news not only for transportation competition but for the country as a whole. For example, why would Canadian National take the lead in research work, as it has, in promulgation of new ideas and innovations, as it has and, particularly, why should it not let labour have its way? What is the incentive in trying to take a position where we pay the going rate in respect of our wage negotiations; if we are doomed to deficits anyway, it does not matter. I repeat that the only hope in the future of the Canadian National is to put it in a position where it has no longer an alibi about the past. Let us wipe the books clear of the past so that we cannot fall back on it. Then, when we get it into a proper position, having accomplished that, then I will say to this committee: If the Canadian National does not show a profit, call it to account, and the management, because if it does not show a profit under those circumstances there is something wrong either in regard to the rates that they are getting for their service, the kind of service they are giving, or the costs they are absorbing. Then and only then will you have a proper opportunity to ask the question of management, why. But, you cannot do it so long as this past is there.

Mr. FISHER: I had the pleasure of reading the proceedings in your appearances before this committee since 1950-51, and I cannot remember through 1954, 1955, 1956, 1957, or 1958 that this question of depreciation really came up. As I recall it, when you were present when the annual report for 1956 came up you were tremendously optimistic. You mentioned that we should clear the past and then if you do not produce we can comment upon the management.

But, I suggest we have a past record to look at, and for years you did not reveal or show to the committees of this house that you were concerned about this depreciation matter. This only has been related in the last couple of years. I would like you to look at the point that Professor McDougall raised. He says in the four years, 1960-63, when one should expect that this capital would have begun to bear fruit, the average amount available for fixed charges was \$10.5 million. Now, in so far as this amount available for fixed charges is concerned, this really has nothing to do with the debt; this is all that has been available. In the light of all the tremendous expenditures, the improvements in the railway's capacity to do work and to increase its productivity, all you have had on an average between 1960 and 1963, namely four years, is \$10.5 million in fixed charges. Now, in truth, that is not a very optimistic picture to put before us.

Mr. GORDON: No, I agree; but the trouble with generalizing always is that it is a generalization. You have to take each year specifically. You must remember that since recapitalization that Mr. McDougall refers to, there have been some major changes in the railway industry. Take for instance the imposition of the 40 hour week for standard labour, and the tremendous additional cost which had to be absorbed, and which could only be absorbed gradually. Moreover, we ran into a completely different technological position in regard to competition and so on. We have to adjust ourselves to that new environment. And there are other items, but I have taken the two largest ones.

We ran into increased costs arising out of the new re-orientation having regard to the 40-hour week, and in other things. I am not arguing against this. I say that we had to meet them and face them, and that they had to be absorbed. Secondly, in regard to the effects of competition, if we are going to survive in a competitive environment, we have to get into the business of automation, and we have to produce all sorts of things, ideas, and methods by which to operate the railway. That will take a little time, but it usually shows results.

In the course of doing this, we have to consider the extent by which we have to rehabilitate the railway in terms of its machinery, if you wish to call it that, or methods of operation; and along about that time there came the uniform classification of accounts. It started under discussion in 1954, and it took two years before they got through. They came in, in 1956. These things had to be adjusted. It was a new area, and it was a new looking environment when we began to realize the situation in regard to our depreciation costs.

I quite agree that the depreciation argument was not thought about at all in 1951 or 1952. If we had been able to keep things relative to the way they were in 1951, if we still had the same labour outlook without the 40-hour week and other things, and if we still had the same relative outlook in regard to competition and things like that, and these new forms had not come into being it may well be that we would not need these new readjustments. But because we had to adjust ourselves to a new environment, we had to have depreciation to take care of the new costs.

Mr. FISHER: You have been building your case on the poor kind of depreciation. Now you have introduced all these other factors.

Mr. GORDON: Yes. This will appear in our argument when we justify our application for recapitalization. That is why I say it is not confined solely to the past, but to other factors as well.

Mr. FISHER: Let me put my comment this way. The Canadian Pacific is your major competitor, and having regard to their attitude or point of view with regard to your recent recapitalization, it would also have had to contend with the very same factors that you had to contend with.

Mr. GORDON: Well, yes and no. As I pointed out to Mr. Grégoire, the amount of depreciation that the Canadian Pacific accumulated throughout the years is very much more than what we had accumulated. Therefore, they had those resources with which to buy their equipment. But as far as the fears expressed by the Canadian Pacific are concerned, their fears have been in regard to anything which would mean that the Canadian National Railways would be able to demonstrate their efficiency and competence in regard to the current years. Those fears are traditional. It has become almost a party line in regard to the Canadian Pacific to express fears of that kind.

I can give you proof of that by reading to you a short sentence which comes from the report of the Royal Commission on Transportation of 1951, which had this to say on the capital revision proposals being mentioned. At page 193 of their report they say:

The objections of the Canadian Pacific Railway Company are based on the fear that the Canadian National recapitalization proposals constitute a threat to the continued existence of the Canadian Pacific as a private corporation. The Canadian Pacific fears that Canadian National earnings on the basis of the proposed capital structure would give rise to demands for lower freight rates regardless of the value of railway property or the earnings required to service the investment therein.

I would ask you to cast your mind back over the last twelve to fourteen years to see if any of those fears have been justified. None of those fears of 1951 has been realized. The sale value of Canadian Pacific stock has improved considerably. Their earnings have steadily shown advancement. None of these things in regard to the statement about lowering freight rates, and the value of property has come to pass. This fear is traditional. It will always be expressed, and it is the same fear that they expressed in 1951.

Mr. FISHER: It might be worth while if we should have the views of the Canadian Pacific management upon the evidence that Mr. Gordon has given, particularly this section at the back of his report. I think Mr. Gordon has given the rebuttal from the Canadian National Railways' point of view in regard to what Mr. Crump and Mr. McDougall have put into the public domain. But I think it would be worth while to hear from the Canadian Pacific management in this committee before we make any comments, and put forward a report to the house. That is why I would like to ask you, Mr. Chairman, if you would consider inviting them to appear. I know we cannot demand it, but I think we can invite Canadian Pacific Railway representatives to appear before the committee to express their views in this particular regard.

The CHAIRMAN: I am sure there is one thing that is evident, namely, that the Canadian Pacific has not put the case before the committee that you have, and that you have been a so-called spokesman on their behalf. But in any event, I think this is a matter that should be referred to the steering committee, and I would be glad to call the steering committee, if that is your wish, and have its members take it into consideration.

Mr. GORDON: May I make one comment? I may be out of order in doing so, but may I suggest that when you consider calling Canadian Pacific representatives before the committee, you should await publication of our proposals, because they will not be able to comment upon our proposals until they are made. I have no objection to your calling these people, but I suggest that in order to be effective, the Canadian Pacific could hardly answer something which they do not really know about.

The CHAIRMAN: The steering committee will discuss it.

Mr. FISHER: They have not been timid so far.

Mr. ADDISON: First of all, may I ask if the depreciation taken last year as shown at the bottom of page 24 is this amount of \$62 million odd?

Mr. GORDON: No; it is \$99 million. You will see the total figure given on page 26, where it is shown as \$99,049,081, under the heading of "Source and Application of Funds for the Year 1963".

Mr. ADDISON: Since this is the first year in seven that the Canadian National Railways have shown a profit in actual railway operations between revenues and expenses, you forecast additional profit when some of this debt load can be retired. What would you consider to be a fair return as a sales figure in railway operation?

Mr. GORDON: I would not want to express a view on that. I do not think that the Canadian National Railways should ever be in a position to have to attest to a return in reference to a sales figure. My view on that is that the Canadian National Railways should operate its affairs, and show a small profit—not a large one, but a small one. We should just get by, standing on our own feet, and perhaps show a small profit. This is not relevant in regard to a percentage in regard to sales.

Mr. ADDISON: You referred to the transportation industry as providing a service to the Canadian people.

Mr. GORDON: That is right.

Mr. ADDISON: Do you consider that the subsidy which is now paid to the Canadian National Railways is adequate?

Mr. GORDON: Well, there is no subsidy paid to the Canadian National Railways.

Mr. ADDISON: Well, what about the \$71 million?

Mr. GORDON: I know, but that is paid to the users of our services, because our rates are frozen. It is a public service. I was careful to say in my statement, on page 3:

Revenues from freight services included \$10.1 million related to the freight rates reduction subsidy which reduces for shippers, on certain classes of traffic, the full effect of the last freight rate increase authorized by the board of transport commissioners in 1958.

So you see it is the shipper who gets the advantage of the subsidy.

Mr. ADDISON: The only amount of money that the Canadian National Railways receive from the government is an amount to make up the deficit for the year.

Mr. GORDON: That is right.

Mr. KINDT: May I just refer to one short question on this matter of shifting the capital structure, or part of the debt load of the Canadian National Railways on to the broad back of the big family mule. However, that is only done partially. This at least places the management of the Canadian National Railways in the position to reflect accurately the efficiency in their management, as you so desire; in other words, what you are saying is that it can do either a 100 per cent job, or if it is only a partial job, you are still being affected by the size of the debt structure, so that you are slipping behind when it comes to efficiency.

Mr. GORDON: I am afraid I have not made myself clear if you receive that impression. What I was trying to say is that we want to receive the amount by which we feel our depreciation account was short in regard to past years. That is what I regard as unrequited depreciation. This is a term with which you will become more familiar when you finally get our proposals. This unrequited

depreciation is the amount at which—if normal provision for depreciation had been used in the past—our depreciation in reserve would now stand. And to the extent that we are able to establish that figure, then that figure will offset the amount of our debt, whatever it might be.

Mr. ADDISON: That is what would happen?

Mr. GORDON: That is what I expect, but it would still leave some debt for the Canadian National Railways. We are not seeking a total write-off of the outstanding debts of the Canadian National Railways. The amount for which the government will take the responsibility will be the amount of the re-regulated depreciation, which would have decreased our past deficits, had it been paid in the past, if a normal depreciation program had been followed.

Mr. Vaughan reminds me that this rearrangement will mean no extra burden on the taxpayer. The taxpayer would be in exactly the same position, or even a little better off, to the extent that the government automatically takes over the debt; and when it becomes a debt of the Canadian government, we will then get a better market basis than we have for the sale of Canadian National bonds. But it will not mean an additional burden on the taxpayer under our proposals.

Mr. REGAN: I have one or two questions arising out of the Barry Goldwater type of statement of Mr. Crump. Would you not agree that most of the profit that the Canadian Pacific Railway earns comes from ways and from fields in which you are not a competitor in the Canadian National Railways?

Mr. GORDON: A good deal of it does, yes. The Canadian Pacific has investment companies from which they derive benefits which are not open to us. May I say this with respect to your question. I realize the particular reference you have made to a certain gentleman in the United States, but I would not want the impression to be gained that we have a fight on, or anything of that kind, with the Canadian Pacific. That is not the case. I do not deplore the views expressed by the Canadian Pacific. They are perfectly well entitled to express their points of view. But I do not want you to think there is a great big fight looming up, because there is not. Our relations are perfectly friendly. This is a free country. They have their views, and they may express them.

Mr. REGAN: With respect to your comments arising out of this statement of Mr. Crump before me, you will agree that the basic and primary purpose of the Canadian National is not to make a profit; and you will agree that in a country of this type, surely its purpose is to provide a certain service, and that the service, because of the nature and the geography of this country, and its tariff structure, is such that a railway operation which is government owned cannot expect to provide the service that is needed, and, at the same time, make a huge profit.

Mr. GORDON: No, I cannot go along with you. But I do want to say that the Canadian National accepts its full responsibility to provide the services which are required, but it wishes to do so on a commercial basis but not without the end result indicated of making a small profit. I agree with you, but I do not think that in our Canadian National Railways outlook we should ever burden the taxpayers. For example, we should never quote a rate to do a piece of business which is below cost. The end result of our operations should be that we provide a service to the public in one way, namely, that it should give them adequate, efficient service at a cost which would make this country competitive in foreign markets.

Mr. REGAN: If you always require compensation for any service that you undertake, you will agree that it would be necessary that some form of subsidy still be applicable to your organization from the government?

Mr. GORDON: No, I do not. This would be purely a matter of government policy. The government might decide that there was an area in Canada under the Maritime Freight Rates Act, which is an excellent example, and if they feel, for certain reasons which apply, in their judgment on a political or business basis, there should be recognition of a depressed area or anything of that sort, where the railways should give better rates, then that is entirely up to the government of the day. You see, it is the public purse which makes up the difference. It should not be the railways that subsidize. If there is going to be any subsidy recognizing any special situation in any part of this country the subsidy should be given only in the form of a payment to that particular area by the government. If they wish to do it through the railways as a matter of convenience, then it becomes only a matter of administration. But our costs should always be kept in mind and we should never be quoting rates which are below our cost. That is the whole principle of the MacPherson Royal Commission report, that we have rates which are cost oriented.

Mr. REGAN: But you will grant that if we are going to have any tariff structure, as such, there are areas which are geographically different and this is the reason that there is a sort of subsidy through the government?

Mr. GORDON: That is purely a matter of political judgment. It is not a judgment for the railways to make. It is purely a political one.

Mr. RHÉAUME: Mr. Chairman, are we going to adjourn for lunch?

The CHAIRMAN: That is up to the committee. I am not going to move that we adjourn.

Mr. FISHER: I have one last question.

Mr. RHÉAUME: I shall proceed at this time, but I thought we were going to adjourn for lunch.

The CHAIRMAN: Is there a motion to adjourn? Yes, and it is agreed.

Mr. GORDON: May I have the pleasure of renewing my invitation to the members of the committee to come and partake of a great Canadian National lunch. If you will come to the Union Station you will find a car available. Will you accompany me?

The CHAIRMAN: Let me suggest that in view of the fact the decision of the committee is to meet after the orders of the day, that we make it 4 o'clock?

Agreed.

The committee adjourned.

#### AFTERNOON SITTING

TUESDAY, June 16, 1964.

(Text)

The CHAIRMAN: Gentlemen, we have a quorum. Mr. Kindt.

Mr. KINDT: Before we get to the real meat of the committee I would like to ask Mr. Gordon a question concerning the Canadian National Railways right of way south of Calgary. That rail line was surveyed some 50 to 60 years ago. No rails were ever laid, and it has been abandoned for over 50 years.

Mr. PRITTE: Mr. Chairman, on a point of order, we are still on the subject of financing. We are supposed to be dealing with the report section by section.

The CHAIRMAN: Yes, I thought Mr. Kindt's question would be on the financial review. We decided this morning that the committee should proceed section by section, and we are now on the item "financial review."

Mr. KINDT: Yes, but I thought that in good graciousness I might ask this question before the full meeting of the committee began so that we could get it on the record. I intend to ask it at some time.

Mr. PRITTE: I have a dozen.

The CHAIRMAN: Is it the wish of the committee that Mr. Kindt ask one question, provided it is not a precedent?

*(Translation)*

Mr. BEAULÉ: You are creating a precedent. Committee members are going to do likewise. We must follow the committee rules.

*(Text)*

The CHAIRMAN: I am sorry, Mr. Kindt. Unless you get some consent from your co-members, I am in the hands of the committee. They do not seem to be very lenient. I do not care, personally.

Mr. KINDT: They may want some consideration given to them later on. This type of action on the part of a few may be all right at times, but I do not think it indicates good sportsmanship.

The CHAIRMAN: Is it a short question?

Mr. KINDT: Of course it is a short question.

The CHAIRMAN: All right then, go ahead.

Mr. KINDT: On behalf of the town of High River, I wrote a letter to Mr. Gordon and he in turn on behalf of the Canadian National Railways gave it back to the town of High River. There was a negotiation about an old right of way which went through the town of High River. The town is grateful to him. It showed excellent public relations. The farmers all along that right of way for over 100 miles feel that if they were in a position to buy back that land, it would constitute a form of relief to the Canadian National Railways by alleviating their taxes, because the Canadian National Railways have to pay taxes and they do so and it costs the public a lot. But if only this land could be sold back to the farmers, there would be money saved for the Canadian National Railways. I would like Mr. Gordon to state what the policy of the company is with respect to that right of way, so that it might be transmitted to the people of that area.

Mr. GORDON: Well, Mr. Chairman, I think it is a very simple question. If there is any land at any point which is surplus to railway requirements we are always interested to hear from anyone who is interested to purchase it. I am not familiar with the particular section of right of way. But tell your interested purchasers to get in touch with Mr. Roger Graham, vice-president of the Canadian National Railways at Edmonton. That is in his region, and he will let the farmers know whether or not it is possible to make the arrangements you mentioned.

Mr. KINDT: Very well. Thank you.

The CHAIRMAN: Let us get back on the track and discuss the financial review. Mr. Rhéaume had the floor when we adjourned.

Mr. RHÉAUME: I would like to ask a few questions in relation to this business of the new method of accounting and financing. I believe Mr. Gordon made the statement that there are interest charges which the Canadian National Railways had to pay, and that there was a debt incurred as a result of poor depreciation procedure, which could be attributed as a major factor to the Canadian National Railways deficit position. Is that right?

Mr. GORDON: Yes, but I would like you to withdraw the words "poor depreciation practice"; that is not the real statement.

Mr. RHÉAUME: Well, let us say unfortunate?

Mr. GORDON: No. It was under a different regime. A different method was in force in those years which did not take into account the need for normal depreciation. We have now looked at it since that time, when the Board of Transport Commissioners devised their uniform system of accounting. I would like to make this statement: the most graphic illustration of it is in the accounts for 1963. If you look at page 26 I think it is, you will find our provision for depreciation in 1963 totalled \$99,049,081, and that it is a direct charge to our operating expenses. We have to absorb it in our operating expenses. If you compare that sum with a similar charge—let us take the year 1951, before this uniform classification of accounting procedure went in—and you take the depreciation practice in 1951, it is quite a different system. The charge to operating expenses in that year would have been something in the order of from \$25 to \$30 million odd. That is the most graphic comparison I can make as to what this new method has done in regard to current practice. That means that since 1956 we are charging into Canadian National Railways accounts the full amount of depreciation, and we figure that this will take care of renewal of capital assets which come in year by year, and take care of them when worn out, when they would have to be replaced.

We are now making full provision for it, so that future managements of the Canadian National Railways will not be faced with the problem with which we have been faced. What I am trying to do by the proposals for recapitalization is to remove the shadow of the past and to take out of consideration altogether the inadequacy of the depreciation reserve of the past. Once we get that out of the way, then you, or anybody will be able to take our current Canadian National accounts and make the proper comparison with the Canadian Pacific Railway, with the knowledge that the same accounting practices are being followed. Then you will have an accurate means of determining the efficiency, if you like, or the managerial competence of the Canadian National Railways without always having to have a qualification in respect of the figures.

Mr. RHÉAUME: At least since 1956 the accounting system has been on the rails?

Mr. GORDON: That is right, fully on the rails, so that future management of the railways will not have an alibi in respect of the actual results of the railway.

Mr. RHÉAUME: My next question is this: you are making proposals to the government, the principles of which you have given us, with some details of those principles, and they will eliminate the interest charges on this extra debt that you incurred prior to 1952.

Mr. GORDON: To the extent that we are able to demonstrate this shortfall in depreciation, yes sir.

Mr. RHÉAUME: Suppose your proposal in fact had been adopted last year, would the Canadian National Railways this year be in a surplus position rather than in a deficit position?

Mr. GORDON: I believe it would have been in a surplus position. That very point refers to questions asked this morning which touched on this very subject. If you look at the figures of the Canadian Pacific balance sheet you will find again very graphically illustrated the ratio of reserves for depreciation shown in their accounts; the ratio of that reserve to the property investments shows that they have a 45 per cent reserve for depreciation against the property investment account; and on the same basis with such an analysis, Canadian National Railways would only have 20.2 per cent. This again reflects the inadequacy of our depreciation reserves.

Mr. HORNER (*Acadia*): Is it 20 now?

Mr. GORDON: No. That is just the figure showing our own reserve accumulation in the 1963 balance sheet, and it shows that we have only 20.2 per cent of the property investment figure in our depreciation, while the Canadian Pacific have 45 per cent. That explains why we have had to borrow money instead of already having it.

Mr. HORNER (*Acadia*): But you claim you are now on the rails?

Mr. GORDON: As from 1956, yes.

Mr. HORNER (*Acadia*): Then should you not both be relatively equal?

Mr. GORDON: No, because we have not had time to accumulate it yet. This 45 per cent of the Canadian Pacific represents their past accumulation. If you take 1956 and separate the two, then you would be right. But you would have to separate them.

Mr. RHÉAUME: You told the committee I believe that the proposal you will make to the government would in fact change the Canadian National Railways balance sheet from a deficit of \$43 million this year to a surplus position. Then I think you have told the committee that you are going to make recommendations at least that the government will be financing it in some other way to pay the \$43 million in interest charges.

Mr. GORDON: What you are gradually doing is making me tell you the extent of our proposals to the government which I have said I will not do. This is something like the \$64 question.

Mr. RHÉAUME: Another thing I wanted to ask you is this: would it be fair to say that for every year since 1956 the same would be true having reference to your proposal?

Mr. GORDON: Yes, as from 1956, I think that could have been said. I would make the qualification that I have not studied that particular question, but I believe that would have been the answer.

Mr. RHÉAUME: I believe you also told the committee that the interest charges in terms of this method of depreciation allowance and so on, were not the only factors, and that there were others. You suggested certain things which occurred in the early 1960's, particularly the general application of the 40 hour week; labour costs; and certain competitive pressures as well which were factors. I am asking you the question now in terms of labour costs; I want to get some information from you about management. How many executives and assistants earn in excess of \$15,000, and how does this compare with the salary ranges for management in let us say the Canadian Pacific or in a similar industry? I am aware that you may not have this information now, but I ask you the question because you mentioned that there was also the factor of labour costs.

Mr. GORDON: You want to know how many earn in excess of \$15,000, and as to the comparison of these figures with those of the Canadian Pacific Railway or any other industry?

Mr. RHÉAUME: I ask you if the Canadian National Railways is paying excessively high salaries to management, or are they paying lower ones? Perhaps you might answer the question under the section having to do with personnel.

Mr. GORDON: The most obvious example of your question is to cite the underpaid, overworked position of the president as compared to the president of a similar company in Canada.

The CHAIRMAN: Order.

Mr. HORNER (*Acadia*): I accept that.

The CHAIRMAN: Is that all?

Mr. RHÉAUME: No. On another point you suggested that if in fact your proposal to the government is accepted, we would then be in a position to have an accurate yardstick with which to measure managerial performance.

Mr. RHÉAUME: You said in effect that if the government does this for you the next time you come, or whoever is president after your retirement comes, before the committee you will be able to account for your stewardship and make it stick. I am wondering whether there are other factors with which other committees will be faced. Did you not say at one point that in respect of substantial purchases you must get cabinet approval?

Mr. GORDON: We must get cabinet approval for our budget, yes.

Mr. RHÉAUME: Does that fact put the C.N.R. in an unfair competitive position with, for example, the C.P.R. in respect of which management decisions can be made without reference to the government?

Mr. GORDON: That is quite right, but then the president of the day would be able to tell the committee that he was not able to get the budget approved by the cabinet and state the reasons. Then you would have the reason. My experience has been that any proposal for a budget which is validated by the needs of the railway and supported by obvious facts, indicating that the expenditure is required, has not been difficult to get approved. If it should happen that there is a government of the day which refuses to approve a budget of the C.N.R., then the president of that day will have to tell you what his experience has been and you will have to form a judgment as a committee or as the House of Commons whether or not it is unfair treatment.

Mr. RHÉAUME: Would I be wrong if I suggested to you that in fact the relationship over the years between the C.N.R. and the government has never been one of nothing but love, but in fact there have been tremendous difficulties involved in just getting the cabinet to devote some time to the consideration of proposals?

Mr. GORDON: I cannot say that in terms of our annual budget. You see the procedure is that our annual budget is first of all approved by the board of directors and it goes through many layers of examination. It starts in the field with our area managers, who make the proposals and then goes to the regional vice presidents. They send the proposals to headquarters and there they are subject to very careful analysis. They finally come to my desk for presentation to the board of directors. When the board of directors approves a budget you can take it from me it is thoroughly documented in such a way that there cannot be, in my opinion, a valid reason for turning it down, always assuming the railway is going to run. There are some things you must have. You must have rails, you must have ties, you must have ballast and you must have equipment.

My experience has been, as has indeed been the experience I have read about in the past, that a proper valid budget presented by the board of directors of the C.N.R. to the cabinet has always obtained approval. There can be arguments and it is more difficult to get approval than otherwise. We do not get automatic approval, which seems to be the case, by using your own analogy in respect of the shareholders of the C.P.R.

Mr. RHÉAUME: I should like to ask you whether there are any other kind of considerations that have to be weighed by management, and I am thinking of the whole matter of bilingualism without discussing the merits of it? Surely the fact that you cannot put up a sign in one language without putting up another sign in the other language complicates the decisions of management? Would this not be the kind of conflict which faces the management of the C.N.R. because of its peculiar responsibility?

Mr. GORDON: I find that a rather difficult question to answer. It will always be the case in my opinion that the actual day to day management of the Canadian National Railways will be a more difficult operation in the sense that more people, so to speak, take a personal interest in it. This is the people's railway and everybody feels entitled to express views about it and so forth.

There are different kinds of pressures that come upon us from the people in various communities who feel they can talk to us on a different basis than they can talk to the management of the C.P.R. I do not regard that as too much of a handicap but as something with which we must learn to live. For example, you will find there are questions asked in the House of Commons in respect of the Canadian National Railways but seldom a question asked in respect of the Canadian Pacific Railway. This is an environment in which we live and I do not regard it as a tremendous handicap.

I notice Mr. Fisher coming in and I should like to repeat what I said a moment ago in respect of depreciation.

Mr. Fisher, I was giving a comparison that will be of interest to you in light of your earlier question. In our accounts for 1963 the total amount of our depreciation charges was \$99 million odd. You will find that in the statement. That represents the fact that we are now on a full depreciation basis in regard to the uniform classification of accounts. As I said, from 1956 on we are taking full depreciation, as nearly as we can estimate it, which will enable reserves to provide the capital expenditures required as the equipment we bought wears out. The difference between the two systems of depreciation charges is graphically illustrated by the fact that in 1951, if you look at the meaning of depreciation charges in those days, the total amount charged to our expenditure account in those days was about \$25 million to \$30 million. We are taking additional costs into our operating expenses in the form of depreciation that was roughly of the order of \$60 million a year more, which means that we are wiping out any possibility in the future of having this sort of problem, and we are trying to correct it with this recapitalization.

Mr. RHÉAUME: I have just one further question to ask you. I am trying to get you to tell this committee whether there are any other recommendations that you have which would improve the competitive position of the C.N.R. in terms of dollars and cents. You make one recommendation toward the end of your report and I am hinting at other areas in respect of which you may have recommendations that are not contained in your report. Is there anything in this regard you can tell the committee?

Mr. GORDON: Let me answer you in this way. We have made our recommendations pretty thoroughly before the MacPherson Royal Commission. When you pass legislation implementing those recommendations I hope that you will find they produce an environment which will give us a competitive basis enabling the Canadian National Railways to play its part in a fairly reasonable way in the competitive world in which it has to live.

Mr. RHÉAUME: I have one further question.

Mr. GORDON: As I said before, you can never eliminate some things such as the loving interest that is expressed by the members of parliament in respect of their constituencies and the operation of the C.N.R. That is all right and will always be, but I have no objection to it.

Mr. RHÉAUME: What would be the average interest rate you are paying on the old debts which resulted from the take over of those railways?

Mr. TOOLE: The over-all average of the Canadian National Railways borrowings is 4.37 per cent, Mr. Gordon.

Mr. GORDON: If you look at the statement at page 25 you will see that the average is 4.37 per cent.

Mr. RHÉAUME: It should be reasonably easy for me in the seclusion of my office to figure out the recommendation you are making to the government?

Mr. GORDON: I would not be at all surprised.

Excuse me, I should like to correct my statement. I want to add to what I have said that you must remember I told you we are not asking for the elimination of all the debt.

Mr. RHÉAUME: I am aware of that fact. I should like to ask one supplementary question. You did say that it is very likely that had this been done it would change your position from a \$43 million in the hole situation to at least a small surplus position?

Mr. GORDON: I did say that, yes.

Mr. MACDONALD: Mr. Gordon, can I take it that the companies referred to at page 18 of your report and the financial accounts of these companies have all been consolidated on the balance sheet?

Mr. GORDON: Yes, this is a consolidated balance sheet.

Mr. MACDONALD: Your figures there have been arrived at as a result of putting together all the figures in respect of these companies which you have listed?

Mr. GORDON: Is there any qualification in that regard, Mr. Toole?

Mr. TOOLE: No.

Mr. GORDON: That is correct.

Mr. MACDONALD: I am interested in knowing the figure in respect of the capital stock of subsidiaries owned by the public. Can you give in a general way some information in respect of the outstanding investments?

Mr. GORDON: Mr. Toole will deal with that question.

Mr. TOOLE: There is about 2,405,000 in stock owned by the public in the Canadian Northern Quebec Railway. You will see that item listed about sixth or seventh down the list. There is 6,800 in the Great Northwestern Telegraph Company; \$140,000 in the Montreal and Southern Counties Railway Company; there is 1,443,000 in the Northern Consolidated Holding Company Limited and about 489,000 in the Quebec and Lake St. John Railway Company. Those figures add up to the \$4,485,000 which I think you will see in the balance sheet.

Mr. MACDONALD: Do you have any policy in respect of liquidating the outstanding investments?

Mr. TOOLE: In a number of cases we do not know who the holders are and cannot find out.

Mr. MACDONALD: I see.

Mr. TOOLE: In other words there are proceedings in the hands of our legal people.

Mr. MACDONALD: Are there outstanding options to purchase in respect of these?

Mr. TOOLE: I would like to look up my records in that connection. I think there is in one or two.

Mr. GORDON: We stand ready to buy but there is no publicized option.

Mr. MACDONALD: For my own information I wonder if you could give me some indication of the nature of your investment in Trans Canada Air Lines.

Mr. FISHER: Mr. Chairman, we are unable to hear.

Mr. MACDONALD: What is the nature of the investment in Trans Canada Air Lines, which amounts to \$250 million?

Mr. GORDON: This is a total investment; we own all the stock of the company. There is nothing in the hands of the public.

Mr. MACDONALD: In respect of the figures for other physical properties, back in 1923 when the lines were all consolidated what became of any lands or otherwise which might have been held by previous railway companies? Were they surrendered back to the crown at that time?

Mr. GORDON: It would depend on the circumstances. Anything that could be construed to be in the physical ownership of the companies that were taken over came into the Canadian National Railways system. But, there was a mixed up situation in which some of the ownership of the land at that time was challenged. But, to the extent that the Canadian National, as such, was able to establish ownership, that all came into the Canadian National.

Mr. MACDONALD: Has there been a policy to divest the ownership of the Canadian National in lands not actually needed for operation of the railway line as opposed to the policy of the Canadian Pacific Railway which has extensive other investments.

Mr. GORDON: I think I mentioned in the report we have been following a policy in recent years of making available to anyone who expresses an interest any lands not directly required for railway purposes and also to utilize in many instances where there are what we call aerial rights available over our properties, an example of which is in Montreal, and we are doing that all across Canada. Also, we are co-operating with the local municipal authorities in regard to their planning activities.

The CHAIRMAN: Would you proceed, Mr. Fisher.

Mr. FISHER: Mr. Chairman, I wanted to return to the points Mr. Gordon raised this morning. This really has to do with the over-all transport policy of the country which, in my opinion, I think is rather ill defined. It seems to me you got hung up in your arguments this morning between two points of view which do not quite square; one is that you talk about a profit position being necessary in order to have morale within the Canadian National and then you also related this to your competition and to the dealings with labour organizations within the Canadian National. Yet, at the same time, I think you began to hedge a bit on just how overruling the profit motive should be, and you made some references to the public service obligations of transport. Would you be in any better position as a competitive entity and, in particular, in respect of the amount of capital invested if you were out and out to go after the largest amount of profit possible which, I assume, is the objective of your main competitor.

Mr. GORDON: Yes, I think that is a valid statement. It is always difficult to be precise about these things. I was expressing a personal opinion, that is not necessary for Canadian National to maximize profit in the sense that it goes out to squeeze out every drop out of it. As a matter of fact, I think the question is largely theoretical anyway because competition will take care of it. If you follow the logic and reason of the MacPherson commission report you will see that we will be able in the railway business or any other business to get only the charges which competition will enable us to get, and that is the real factor that is involved.

Mr. FISHER: Well, I do not follow the logic of the MacPherson commission report; it never did appeal to me. However, I want to put it to you that you are not only in the freight and passenger business; you are involved in almost every mode of transport in some way, shape or form in a greater or lesser degree. Certainly you are in the trucking business which has been the most competitive of all modes; you are into the red, white and blue fares and the intense competition in the passenger business competing with private cars, airplanes and so on. Have you ever looked ahead to ascertain where

Canadian transportation policy is going and where the Canadian National fits into this, bearing in mind we want to get some kind of integrated operation that is planned with the public service in mind instead of the maximization of profits of certain parts of the transportation picture.

Mr. GORDON: Yes. Of course, that becomes—and, I do not know how to express it—sort of a theory of operation. You are quite right when you say we try to be in all modes of transportation, including telecommunications and others. But, what I was trying to say is that if you are judging the results of the Canadian National it should be sufficient if the Canadian National is able to produce a small profit and that we do not have to try to squeeze the last dollar we can get out of a particular service so long as we cover our costs and make a marginal profit.

Mr. FISHER: What is the ideal transportation policy, since you are in all modes which relate both to public service and this slogan of competition that has been interjected into transportation policy discussed by the MacPherson commission report?

Mr. GORDON: I go along with the MacPherson commission report philosophy. I think it is very clearly expressed there, and that competition is the proper balance wheel in connection with our transportation policy as a national policy. And, if we arrange our forces so that the mode of transport that best can do the job is permitted to freely compete to do that job then we will get the best kind of national transportation policy.

Mr. FISHER: But, you are in all modes of transportation, and so is the C.P.R.; the one has immense resources and is a private company and the other has immense resources and is a public company. With the government behind the one where is the competition going to lead to in so far as the people within the other modes—and I am thinking particularly of trucking—are concerned.

Mr. GORDON: We are not in all modes in that sense; we are in modes of transportation which are associated and joined with the railway business as a basic backbone and we are using the truck as an extension of our policy to service the public. Pipe lines are a case in point. I am certain there will be developments of pipe lines in Canada and we will have to ask ourselves a definite question in respect of whether or not it is appropriate for us to go into that in respect of the business we are now in. I am not talking about oil but carrying solids and so on.

Mr. FISHER: Then let us talk about pulpwood chips. At the present time your line is hauling a lot of pulpwood. If a change comes into effect in regard to the moving of this pulpwood in chip form through pipe lines would you be interested in that business?

Mr. GORDON: Yes, I think so. It depends what industry we are serving. It is our duty to co-operate in regard to certain Canadian operations; we may be the only transportation agency that would be available and we would have to consider it then in terms of what service we can give to that industry. If we find we economically can build pipe lines to move solids we will do so, and that will be part of our transportation duty; but if we can handle it better by using the more orthodox methods, as we are doing, it does not necessarily follow that pipe lines will put us out of business. It may be we will be able to revise the method of railway transport to be competitive.

Again it comes to the touchstone of what is competition, what is the best method of doing it, and I regard, as the national transportation policy, that it is the duty of any transportation agency to utilize the most efficient method of transport to service the public.

Mr. FISHER: How can you achieve that when you have two major organizations engaged in providing a public transportation service operating from different bases, or are you suggesting that eventually the C.N.R. will be almost exactly on the same basis as the C.P.R.?

Mr. GORDON: That is what I am suggesting if we get this recapitalization. You will then be able to see the comparison of our operations with the C.P.R. on the same basis.

Mr. FISHER: Where is it going to finally evolve? You must have looked ahead. You have had 14 years of it. Where is it going to finally come to in terms of the relationship of these two major transportation companies within the transportation picture?

Mr. GORDON: Evolve in what way? Are you thinking of the respective operations or are you thinking in terms of the possibility of amalgamation?

Mr. FISHER: That, or an over-all transportation policy plan which I gather was also part of the MacPherson recommendations, although there is no indication that that is in the legislation.

Mr. GORDON: It is inherent in the MacPherson commission report, the national transportation plan. I would not attempt to be a prophet in regard to the future on what will happen in the two major railway companies. It may be that one of them will get fed up with some parts of the business. It has already been suggested as regards the passenger business. We are making an all-out effort, as you know, to discover whether or not the passenger business can be salvaged and kept with the railways. Our red, white and blue is a case in point. All these are business risks that we are taking. We are not absolutely sure it is going to work out. This is on an experimental basis. If it is found, in the future, that despite all our efforts in regard to the passenger business—and this is a good example—we cannot make it pay, then I think we should give it up.

Mr. FISHER: In relation to the subsidies that exist at the present time, would you express any particular views about any one of them individually; for example I am thinking in particular of the east-west bridge subsidy in the Maritime Freight Rates Act?

Mr. GORDON: As I said earlier, certain of these subsidies arise purely out of political considerations. When the government of the day feels there is any area in Canada that is handicapped in some way by geography, or whatever it may be, and if the government of the day wishes to give that area of Canada an advantage in regard to freight rates, then that is government policy. The only qualification I make is that it should not be done at the expense of the railways. If they want to put in a Maritime Freight Rates Act, which is after all a means of giving cheaper freight rates to a certain area in Canada, then that should be paid out of the public purse.

In regard to the East-West and the Freight Rate Reduction subsidy, that is brought about by the fact that the government overruled the Board of Transport Commissioners when they gave a freight rate increase some years ago. They overruled the decision of the Board of Transport Commissioners that the railways were entitled to increased freight rates, and because of that they announced at the same time that they would pay a subsidy pending the implementation of the legislation of the MacPherson Commission.

Mr. FISHER: How fair is the picture that the MacPherson royal commission has given of the need for doing away with subsidies and scaling away when the whole question of the Crowsnest pass rates was not really considered or relevant to the recommendations?

Mr. GORDON: This is new to me. Did you say the Crowsnest pass rates were not considered?

Mr. FISHER: I understood that the terms of reference specifically excluded any detailed consideration of the Crowsnest pass rates.

Mr. GORDON: I do not think so. I see right behind you Mr. Frawley who would be better able to answer this than I am.

Mr. FISHER: There was a great deal of discussion but I remember Mr. Frawley's examination of Mr. Sinclair of the C.P.R.

Mr. GORDON: I am not an authority on the terms of reference but my understanding is that it was clearly understood that the legislative protection in regard to the Crowsnest pass rates would not be changed. Now, that does not alter the fact that if it is shown by the railways that the rates given in that legislation are not compensatory in respect of the moving of grain, then the railways will have a claim for compensation, but the farmers of western Canada were assured, as a matter of policy, that the rates as protected in the legislation, would not be changed. There was a great deal of evidence lodged with the commission in respect of the cost accounting approach to the Crowsnest pass rates. I think it was probably the major item in the whole discussion.

Mr. FISHER: But at the present time neither your railway nor the C.P.R. has a figure to indicate this. For example, you have been hauling a lot of grain in the last year which was covered by this particular report. There is no real indication of the relationship of what is compensatory.

Mr. GORDON: There will be when the MacPherson commission legislation goes through. That is part of the \$50 million. There was a global figure taken as a transitional figure until the MacPherson legislation is brought into effect. I have not seen the legislation any more than you have, but I can pretty well draw my own conclusions from reading the report and hearing the discussions that have taken place. It specifically said in the recommendations that a recognition of the Crowsnest pass rates and their meaning will be part of the legislation.

Mr. FISHER: I was not aware this was going to be part of the legislation.

Mr. GORDON: I am certainly assuming it will be.

Mr. VAUGHAN: You are talking about the public service revenues which are the subsidies that the MacPherson commission recommended, but not the legislation to deal with the Crowsnest pass rates.

Mr. GORDON: Yes, I am talking about the recommendations of the MacPherson commission.

Mr. HORNER (*Acadia*): This Crowsnest pass rates discussion was quite interesting.

I should like to follow this up with the depreciation charges. Do I gather from your last remarks, Mr. Gordon, that arising from the MacPherson Commission's report there will be another subsidy for the railroads, or compensation if you like that word better, because of the Crowsnest pass rates?

Mr. GORDON: Not because of the Crowsnest pass rates, but you remember the MacPherson Commission report.

Mr. HORNER (*Acadia*): The report suggested that there would be payment made for A, B and C within reason.

Mr. GORDON: There is a transitional period in which the legislation will deal with various headings. Presumably, the interim payment will be cancelled. There will be the Freight Rates Reduction Act which will have to be taken care of, and there will be the bridge subsidy. The Maritime Freight Rates Act, I presume, will be continued. Then there is provision in regard to passenger deficits on an approved basis which will decline over a period of years and will

be paid in the form of a subsidy if the railways are able to prove the deficit, and then in respect of grain payments there is reference to that also. However, these are deficits, as I understand the commission's report, and I do not know how it is going to come out in the legislation.

Mr. HORNER (*Acadia*): I would like to know what you expect.

Mr. GORDON: What I expect is that the legislation will follow the general principle of the MacPherson commission report which I read to mean that if there is any place where the railways are required as a matter of public interest to carry traffic on a non-compensatory basis, that when the railways are able to prove that that is happening, they will be entitled to payment from the public purse. That is the general principle.

Mr. HORNER (*Acadia*): According to the statement of the Minister of Transport in Saskatoon last fall he was not convinced that the C.N.R. was losing money on Crowsnest pass rates.

Mr. GORDON: It would have to be proven before the Board of Transport Commissioners.

Mr. HORNER (*Acadia*): Judging from what the minister told the people in Saskatchewan, he is not convinced of it as yet.

The CHAIRMAN: Gentlemen, can we get back to the financial revision?

Mr. HORNER (*Acadia*): This is certainly financial; do not think it is not. Some time ago, last year or the year before, you suggested that the C.N.R. were giving the diesel locomotive a 30 year life span. Am I correct?

Mr. GORDON: There is a regular formula. Each type of equipment has, under the uniform system of accounting, been given a life span with the authority of the board of transport commissioners. We are depreciating at that rate.

Mr. HORNER (*Acadia*): Maybe I am thinking of the steam locomotive.

Mr. TOOLE: The old steam locomotive had a life span of 33 years.

Mr. HORNER (*Acadia*): Can you give the committee some idea as to how many years the C.P.R. has allowed in respect of the steam locomotive? I want to draw a comparison. You say that you are going to be on an equal basis with the C.P.R. I want to draw a comparison as to how far you were on an equal basis in the past.

Mr. TOOLE: I can give you a brief summary. In the Canadian National Railways we started depreciating rolling stock in 1940, and actually the Canadian Pacific Railway did it at the same time. However, the C.P.R. started depreciating road structures in 1942, and we did not start that until 1956. The C.P.R. started depreciating hotels in 1936; we did not start that until 1954.

Mr. HORNER (*Acadia*): Even hotels?

Mr. GORDON: Mr. Horner, if I may repeat this, take the 1963 balance sheet: the C.P.R. had reserves for depreciation, as a percentage of their property investment, of 45 per cent, and for the C.N.R. the figure is only 20.2 per cent. No matter how you analyse it, it comes to that global figure because it means that there is a difference between each class of equipment. However, we have only 20 per cent reserve for depreciation and they have 45 per cent. I would hope that if we get this recapitalization, it will come out at approximately the same figure.

Mr. HORNER (*Acadia*): Since 1956 you have been depreciating the diesel locomotive at the same rate as the C.P.R.

Mr. GORDON: Yes, it comes under a uniform classification of accounting. We have to do it at the same rate as the C.P.R. by virtue of the board of transport commissioners.

Mr. TOOLE: I was going to say that road diesels and yard diesels are depreciated at different rates so that the difference between the C.P.R. and ourselves can be minor depending on the proportion that we have of road to yard diesels, but it is the same formula.

Mr. PRITIE: There is a question I was going to ask at 11.30. I got up to let a member pass me and Mr. Grégoire started.

My question relates to what Mr. Fisher brought up. It seems to me, from Mr. Gordon's presentations this year and last year, that there is a bit of confusion as to his goals. He talks about being in a position where the C.N.R. would be in the same accounting position as the C.P.R. and where the C.N.R. would behave very much as a private enterprise. On the other hand, in reply to a question that was asked later on, he said he would want to make a small amount of profit after meeting all the charges. That seems to me confusing. There is a difference between operating as a public utility and operating as a private enterprise. My question arising from that would be that if you were to get in that position you would be a yardstick railway. You are not out to make the most amount of profit.

Mr. GORDON: I see the difficulty we are in. I had not thought about it that way. Both you and Mr. Fisher have a point. I was really dealing with it from another point of view. I was really trying to say that if we arrive at a profitable position, that should be regarded as satisfactory. However, if by reason of charging the same freight rates as the C.P.R., and if we accommodate ourselves to competition in the same way, and it turns out we make a large profit, there is nothing wrong with that. I do not see much opportunity of making a large profit in the light of the kind of competition that I see for the future. There is nothing wrong about it if we are able to adjust ourselves to competition on the basis where we give public service at a price and with efficiency of transport that is better than other modes.

Mr. PRITIE: Is there any relationship between your statements at the end of your report where you talk about chronic deficits and where you say:

Then this will not only be severely damaging to the morale of the personnel,—

But then you go on to say:

—but could, in fact, have a detrimental effect on the important private enterprise sector of the transportation industry.

I do not understand it.

Mr. GORDON: It can be stated very simply that if the C.N.R. is left in the position of chronic deficit, that if continuing deficits are inevitable, and they will be inevitable if we do not get this recapitalization, then in my opinion, the morale of management will suffer to the point where there will be a what's-the-use attitude.

Mr. PRITIE: I understand that part.

Mr. GORDON: Then the C.N.R. can become a competitor on a basis that will hurt the private enterprise section of the transport industry because they will not think about the profit motive in the sense of quoting a price for their services. They will say "what difference does it make?" It is indifference to deficit that I am afraid of. As I said earlier this morning, the only factor that will mean anything in regard to the future of the C.N.R. is pride of accomplishment. What I am trying to say is that if the C.N.R. is put in a position that it not only shows a profit but must show a profit, and that if it loses money in any year after this, there must be a damned good reason for it and there should be

almost a public inquiry as to what is wrong with management. I am setting a pretty tough line for future management, but I believe that with this adjustment that criterion is sound, and that you should be able to see what is wrong with the C.N.R. if it cannot show a profit in the circumstances.

Mr. HORNER (*Acadia*): You would do away with the Crowsnest pass rates, which has been your goal for branch lines for the last five years.

Mr. GORDON: As an excuse? No, because there is a very different basis now. Under the legislation the railways of the future will have to prove their losses. There will be no more general statements. The cost accounting complex, the cost accounting approach to it has been established, and that cost accounting would be maintained. If the railways of the future claim that, you can challenge them.

Mr. HORNER (*Acadia*): They have never been able to prove it to anybody as yet.

Mr. GORDON: They proved it to the MacPherson Commission.

Mr. HORNER (*Acadia*): Not in black and white. They were convincing enough to move the majority of commissioners on the MacPherson Royal Commission but they did not prove it down to dollars and cents that they were making money hauling grain.

Mr. MACEWAN: Mr. Chairman, I just have a short question. I wanted a clarification from Mr. Gordon in regard to what he said on the Maritime Freight Rates Act. Presumably, as I understood the recommendations of the MacPherson Royal Commission, they were to continue the idea held in the legislation of the Maritime Freight Rates Act, and I wonder if this is correct. They also stated that the benefits of the act would be open for all types of transportation in the Atlantic area.

Mr. GORDON: I did not say that.

Mr. MACEWAN: But is it correct?

Mr. GORDON: I do not know. It depends largely on what the legislation is.

Mr. MACEWAN: You said that you assumed when the legislation was brought down it would favour the retaining of this act.

Mr. GORDON: Yes.

Mr. MACEWAN: That is fine.

Mr. VAUGHAN: I think he said that the MacPherson report did not recommend cancelling the Maritime Freight Rates Act.

Mr. MACEWAN: Yes. Would you agree with that recommendation?

Mr. GORDON: What part of it?

Mr. MACEWAN: That the Maritime Freight Rates Act should not be rescinded.

Mr. GORDON: Yes, I would not disagree or agree with it because it is a matter of government policy.

Mr. MACEWAN: Yes. You said that with regard to areas which are depressed it is a matter of government policy and the payments should be made out of the public purse instead of out of the railways.

Mr. GORDON: That is correct.

Mr. MACEWAN: And that under the Maritime Freight Rates Act, shippers in that area are given the benefit of the act from the public purse.

Mr. GORDON: Yes, to the extent of the subsidy.

Mr. MACEWAN: And do you believe that under this act if we are to continue or not the benefits given to the Atlantic area, that they should go directly to that area and not be handled by the railways involved at all, such as the Canadian National Railways?

Mr. GORDON: That would become a matter of practical administration. I do not know how it could be handled. But I suppose anything is possible depending on how it is set up. But to me it would be a very difficult thing to do. That is only a personal opinion. The arrangement of payments to the individual shipper become a matter of practical administration. It could be done, but I think the cost of administration would be a pretty fearsome thing. I am only giving an opinion. I am not agreeing or disagreeing. It is entirely a matter of government policy.

Mr. MACEWAN: I take it that there is one point at least where the Canadian Pacific and the Canadian National agree, and that is the first recommendation of the royal commission, that the rates should more or less seek their own level?

Mr. GORDON: Yes, I think that the Canadian Pacific and ourselves are pretty much in agreement there. I do not know of any point of the MacPherson report where we are in disagreement. But again we do not know until we see the legislation.

*(Translation)*

Mr. ÉMARD: Mr. Gordon, speaking about the report we mean the financial report, Mr. Rhéaume was asking you a moment ago whether bilingualism created difficulties for your company. Now, since you have tried to find solutions to this problem, is it not true that the company's income has increased, as shown by the financial statements?

*(Text)*

Mr. GORDON: Well, I certainly do not want to try to appraise the general question whether or not more bilingualism would add to the cost of operating the Canadian National Railways. I do not think it is a possibility. I do not see how it could be. I say that it is the duty of the Canadian National to adjust itself to the requirements of any language in the area that we serve, and that is what we are trying to do. But I would not attempt to put a cost figure on it. It is not possible to do so, in my opinion. I really do not think it arises. It is just a matter of a part of the environment in which we live.

*(Translation)*

Mr. ÉMARD: I did not ask to establish the cost of biculturalism. I only wanted you to tell me that the fact that you were concerned with biculturalism at the present time did not prevent your company from making increased profits just the same.

*(Text)*

Mr. GORDON: I certainly would not say that bilingualism had any adverse effect on our business in the sense of making profits out of the business that we handle. I do not think it applies at all. Did you have it in mind that we were losing business, or not getting business because of biculturalism?

*(Translation)*

Mr. ÉMARD: No, what I thought was—what I thought was—that even with biculturalism, it does not create—Mr. Rhéaume gave me the impression that the fact that you were concerned with biculturalism caused increased expenses. Now, I think that in the case of the Canadian National, as with many other firms

that have to sell their goods, these added expenses are not really expenses because they bring in some business, just the same a certain business increase which makes up for the increased expenditure to further the cause of biculturalism.

(Text)

Mr. RHÉAUME: On a point of order, if someone is to say that sort of thing, it would probably better be said by someone with a French name. I did not imply it. I want to be correctly interpreted here. The president of the Canadian National Railways is under various kinds of requirements that place him perhaps in an unfair competitive position. The other point was that in fact a parliamentary committee can always be raising matters with the problems of bilingualism and biculturalism and that they apply more directly to crown corporations. I was not discussing the merits of the issue, and I do not want it to be left with that impression.

Mr. GORDON: I might dispose of the question by saying that there is no additional cost to the Canadian National Railways by reason of biculturalism or bilingualism. So long as we conduct our services in Canada and service industry, and it is to our own advantage to give the public in any area of Canada the service that they ask for; and if they want service in French rather than in English, we will give it. I do not consider it to be a handicap or a cost. It could benefit the business.

(Translation)

Mr. ÉMARD: That is what I wanted to know.

(Text)

Mr. RHÉAUME: I have another line of questions to pursue. I put it to you that on the basis of what you told me earlier about the proposals you are going to make, or which you have made, or which you are on the verge of making to the government, there was a proposal to the effect that the Canadian government recapitalization of some \$900 million of Canadian National long term debt would be effected.

Mr. GORDON: I have not mentioned any figure.

Mr. RHÉAUME: You told me that you paid a certain percentage, 4.7 per cent, and that it would have the effect of eliminating \$43,000,000 of deficit that you have this year. My mathematics would put this sum in the order of recapitalization at \$900 million. I do not want to leave the committee with the wrong impression. It might be higher or it might be lower.

Mr. GORDON: My eight year old child is having great difficulty with the multiplication table. I must fall back on that, too. You can draw an inference, but you cannot get me formally to admit it. You might say that the whole proposal of what I said this morning was not confined wholly to the question of the unrequited depreciation. There is more to it than that. You have to wait until you get the whole proposal.

Mr. RHÉAUME: It is not an unfair proposal to use 4.7 per cent on \$43 million.

Mr. GORDON: If I should ever be tried for murder, I would ask you to defend me.

Mr. RHÉAUME: We would both hang together.

Mr. KINDT: Is the proposed legislation for capital readjustment to be initiated prior to the legislation on railroad abandonment, or is parliament to receive a package deal including railroad abandonment.

Mr. GORDON: I have no means of answering that question. I hope to get recapitalization ahead of any other business that we have, but it is a matter for the government to decide.

Mr. KINDT: If they were to undertake that legislation before you followed up the branch line abandonment arrangement, would you not then be in a position that some of the figures on recapitalization would be moved?

Mr. GORDON: No. I do not think that branch line abandonment has any bearing upon the recapitalization proposals at all.

Mr. KINDT: In other words, you mean to say that the earnings from the branch lines which are now in operation and that would be abandoned would not change the capital structure or the earnings of the railroad?

Mr. GORDON: No, I do not think so. The number of branch line abandonments that you prefer to has gone past the appraisal of specific branch lines, and if we claim that we are showing a loss, we are going to be given an opportunity to file this claim with an appropriate board which will sit in judgment of our claim. If it turns out in the judgment of the board that we have shown a loss, and that the line for reasons of public interest should nevertheless be continued, then the MacPherson commission report says that we should be paid the difference. It does not necessarily mean that any line will be abandoned. We merely have a claim for compensation under the provisions of the MacPherson report.

Mr. KINDT: Would not the compensation you receive change the capital structure?

Mr. GORDON: No, not the capital structure, but our profits, our operating results.

Mr. KINDT: I have another question. I notice that your expenditures for telecommunications between 1962 and 1963 have gone up from \$11.7 to \$27.3.

Mr. GORDON: What page is that?

Mr. KINDT: Page 4.

The CHAIRMAN: I wish you would wait, Mr. Kindt.

Mr. KINDT: This is on the capital structure. This is an investment.

The CHAIRMAN: All right, go ahead.

Mr. KINDT: It is capital expenditures that I am talking about.

Mr. GORDON: Yes.

Mr. KINDT: Therefore, I am perfectly on the beam.

The CHAIRMAN: As long as we do not get into too many details, yes.

Mr. KINDT: But here it is right on page 4.

The CHAIRMAN: But we are on page 1 now. I have held back some other members who wanted to get to railway operating expenses.

Mr. KINDT: I am prepared to defer, rather than to wander all over the place.

The CHAIRMAN: Not yet.

Mr. KINDT: My question has to do with capital expenditures.

The CHAIRMAN: Are we through with page 1?

Mr. FISHER: It seems to me that two years ago when you first brought up this question of refinancing, your figure was one of about \$800 million. I notice that the *Montreal Star* put forward the figure of a billion.

Mr. GORDON: This is very difficult for me. I find I am getting to be an old man, because I cannot remember all the things I said at past committees. But if I remember correctly that figure came into being when I called attention to the comparison of the Canadian Pacific reserve for depreciation versus ours.

I think I said if they should take the same ratio, we should have at least \$900 million more in our reserve account. That is my recollection of it now. But I am speaking about two years ago. I think you brought the point out, and I think that is how that figure came into discussion. I would have to look back to see.

The CHAIRMAN: Does page one carry? Carried.

Now, page 2. Mr. Rapp has a question on railway operating revenues.

Mr. RAPP: Mr. Chairman, I should like to ask Mr. Gordon whether I am right in assuming that new revenues have been obtained by the C.N.R. through the movement of potash?

Mr. GORDON: Yes.

Mr. RAPP: I am interested in this particular subject and I should like to know whether other potash companies in operation or in the process of sinking shafts in Saskatchewan have applied for the extension of branch lines to their mines for the movement of potash and, if so, has the C.N.R. complied with their requests, or has management in mind the extension of some of its lines to certain potash mines?

Mr. GORDON: Our position in this regard depends entirely upon the locations involved. If our line is adjacent to a particular point we would expect to service it, but generally speaking the policy is that the railway which is closest to the point location receives would deal with any such application. Certainly if anyone with a potash development applied to us for railway service we would try to accommodate.

Mr. RAPP: That is the answer I wanted to obtain because the two companies I have in mind intend to sink shafts in an area which they hope to have serviced by Canadian National Railways at extension lines. I am referring to the Alwinal Company and the Kerr-McGee Company, both of Lanigan, Saskatchewan. I have been asked by some officials of these companies whether the C.N.R. will favourably consider applications in respect of these locations if and when they are presented.

Mr. GORDON: As far as I am aware I expect that our industrial development department is closely in touch with any potential potash developments. I cannot tell you in detail the exact situation but I should be very surprised if there are any potash developments about which our department does not know. However, if it is logical for the Canadian National Railways to service those developments we are after the business, and if you know of any names or can give me any tip-off in advance of our competitors I would be delighted to see whether we can get in ahead of them.

Mr. RAPP: As I suggested, the Alwinal and Kerr-McGee Companies are interested in sinking shafts in the vicinity of Lanigan, Saskatchewan.

Mr. GORDON: I am practically certain that the officials of our industrial development department have already been in contact with the officials of those companies.

Mr. RAPP: I am not sure whether the branch line extension into Esterhazy is a C.P.R. or C.N.R. line. There is a branch line extension into that town.

Mr. GORDON: We were in there first and providing service, and then our competitors got in there by C.P.R. methods.

An hon. MEMBER: By skulduggery.

Mr. RAPP: The only thing I wanted to know was whether you considered these applications favourably because as you state in your report the movement of potash provides a good source of revenue to the company.

Mr. GORDON: This is a very important part of our operations.

To put the situation very simply, if there was a development somewhere approximately two miles from our line we would expect to service it but if it was 40 miles from our line and only two miles from a C.P.R. line we would be pretty well sure that we would be beaten.

The CHAIRMAN: Mr. Lloyd, did you have a question to ask?

Mr. LLOYD: I have a question in respect of recapitalization. Does our consideration of that item come at a later stage?

The CHAIRMAN: We have just finished our consideration of page 1.

Mr. KINDT: Page 1 deals with earnings.

Mr. LLOYD: Recapitalization is generally referred to under the paragraph headed "Outlook" at page 68. I will wait until we consider that item to ask my question if you desire. Are you referring to page 3 at this time?

The CHAIRMAN: We are referring to page 2.

Mr. HORNER (*Acadia*): We are actually referring to page 3.

The CHAIRMAN: We are referring at this time to pages 2 and 3.

Mr. LLOYD: I should like to ask a question in respect of municipal taxes.

Last year I understood that we would be provided with some sort of a schedule indicating the tax payments made to municipalities in Canada by the Canadian National Railways. I am wondering whether that statement was ever prepared. I have not seen it as yet and I am wondering whether it was not prepared as a result of an oversight.

Mr. GORDON: I cannot recall the situation at the moment. Have you this information Mr. Toole?

Mr. TOOLE: I do have a summary of figures here which tie in with the printed report in front of you.

If you look at page 23 of the report you will see the figure in respect of railway tax accruals of \$22,839,000. That figure appears in the centre block of figures third from the bottom. That figure is comprised of municipal taxes or agreed payments in lieu of taxes paid by the railway to the extent of \$9,560,000; provincial and state taxes, Canada \$2,800,000 and United States \$2,500,000; unemployment insurance in Canada \$3,600,000 and in the United States \$1,500,000; United States railroad retirement tax, \$2,600,000 and other miscellaneous taxes to the extent of \$280,000, the total of which is \$22,839,000. Of that amount, as we pointed out, \$9,560,000 is municipal taxes or agreed payments in lieu of taxes.

Mr. LLOYD: The question asked last year was designed to produce information regarding your reasons for differences in the payments of taxes either by law or by agreement.

The CHAIRMAN: Mr. Lloyd, would you come to the table so that you are near a microphone? It is difficult for the translators to pick up your voice.

Mr. LLOYD: I am sorry. I did not realize that that was the case. Shall I begin again?

Last year I recall making a request for a comprehensive analysis in respect of municipal tax payments which would show why tax payments were met in some municipalities and not in others. Eventually I hoped to make a comparison between C.N.R. policies and C.P.R. policies in this respect.

Mr. GORDON: I think I should start off by indicating to you what C.P.R. policy is and then you probably can deduce from that our policy.

As far as I am aware the C.P.R. does not pay taxes unless it must. That is the first statement I wish to make. The C.P.R. pays taxes as it is required to.

Mr. GRÉGOIRE: Everybody is in that position, Mr. Gordon.

Mr. GORDON: I think we are all in that same position.

We are in the same position and only pay taxes as we are required to pay them. If we are able to advance reasons for not paying taxes of course we advance those reasons wherever they may bear fruit.

Mr. LLOYD: That is a very entertaining answer, Mr. Gordon.

Mr. GORDON: It was not intended to be entertaining.

Mr. LLOYD: That is perhaps your way of getting your message over. Let me say this to you. I should like to have an answer to my question. You have indicated that you want in respect of the accounting and financial arrangements of the Canadian National Railways a system whereby you can readily compare the operations of the C.N.R. on a fair basis with the operations of the C.P.R. and other competitors. You are seeking a recapitalization for this purpose. Ultimately you hope when the real organization is completed you will be able to show what the C.N.R. will do in respect of the extension or curtailment of particular services. You hope that any federal government subsidy necessary to maintain services will be clearly indicated by some different and better method of reporting and will not be lost sight of in the new deficits of the railway.

The impact you say on the federal government budget will be the same so long as the federal government policies remain the same in respect of subsidies but would at least give a fairer picture of the results of the operation of the railways under the new system. I suggest that this same thing is true in respect of municipal taxes, and that until we find out what are the different reasons for the different policies in respect of municipalities we cannot very well prepare a case, if you like, for some uniformity of practice. All I asked for last year was that a summary be made, or an analysis be made setting forth the different reasons why you pay full taxes in respect of the Canadian National Railways hotel in Montreal including business and water taxes yet in respect of the Nova Scotian hotel in Halifax you have a tax agreement.

Mr. GORDON: I think the short answer to your question is, as I was trying to say earlier, we pay taxes depending on the circumstances in the area in which we pay them. This situation is true in respect of the C.P.R. which is in the same situation. In certain places the C.P.R. has exemption, whereas in those same places we do not have those exemptions. The tax policy depends entirely on the particular background and place in which the railway is operating.

Mr. LLOYD: I should like to come back to my original question.

Mr. GORDON: All right.

Mr. LLOYD: Before you go on to explain particular cases, I should like to know whether it is possible for you to put between the covers of one publication a statement of your policies in respect of municipal taxation in Canada. That is all the information I am now seeking. There are differences involved and I think as the president of a crown company looking toward the objectives you are looking toward your policy in respect of municipal taxation is very essential.

Mr. GORDON: Our policy is just that which I have attempted to explain. We deal with our tax position depending upon the area in which we are taxed. The same thing applies to the C.P.R. There are situations on both railways where one railway is granted exemption and the other is not. And, this is very true of western Canada now; there are exemptions applying to the C.P.R. that go back into history which do not apply to the C.N.R. We are paying taxes in many places where they are not. The same thing applies to the Canadian National in terms of the history of the railways that became

part of the C.N.R. system, and wherever we inherited a local situation that gave us in some cases a more favourable position and, in other cases, a worse position, we live with that position and do the best we can with the local authorities.

Mr. LLOYD: You certainly do. We have lots of experience in that field. But, I still come back to my point, that in order to have a proper comparison of the result of your operations and that of your main competing carrier you would have to show the places where you are liable for municipal taxes and they are not.

Mr. GORDON: Yes, and you also would have to get the C.P.R. to give you a similar statement in order to make the comparison, and they will not do it.

Mr. GRÉGOIRE: Is it not public information?

Mr. LLOYD: Why will they not?

Mr. GORDON: I do not know.

Mr. LLOYD: You mentioned that you are required to maintain standard accounting practices; who imposed that upon you?

Mr. GORDON: The Board of Transport Commissioners.

Mr. LLOYD: And in these reports to them do you detail municipal tax payments?

Mr. GORDON: No. That is not one of the duties of the Board of Transport Commissioners. The uniform classification of accounts merely deals with the manner in which the accounts shall be drawn on our books: They do not tell us what taxes we should pay; the local authorities tell us that.

Mr. LLOYD: Are you saying then you cannot give us this detailed analysis of municipal tax payments because the C.P.R. will not?

Mr. GORDON: No; I am saying I do not think it is in the interest of the Canadian National to start to give a detailed analysis of the individual taxation situations which meet us across the country. We live with the situation as it obtains at the particular time, and it varies. It would be quite a difficult job to work out all the situations. I say two things: I do not think it would serve any good purpose in terms of the factual conditions we meet, and it would not change the situation anyway. We still would have to deal with the local authorities.

Mr. LLOYD: But, surely to goodness, you might be able to accomplish some uniformity of policy if you were to disclose to the municipalities the problem you are up against.

Mr. GORDON: No. We cannot dictate to the local authorities.

Mr. LLOYD: You are not dictating to them. But, at the moment, you are refraining very effectively from giving any information in this field to this committee. Last year you said you would give us such information.

Mr. VAUGHAN: Mr. Lloyd, could you leave that with us?

Mr. LLOYD: I left it with you last year with the expectation that the necessary information would be forthcoming this year.

Mr. VAUGHAN: I remember the conversation. I think you and I had that conversation but I did not recollect the conversation was that we come here with a statement and give it to you. You just said at the end of the committee: I hope next year Mr. Gordon will know more about taxation.

Mr. LLOYD: Well, I am still hoping.

Mr. GORDON: I want to try and find out what you want. I am not trying to resist you.

Mr. LLOYD: You know what I want.

Mr. GORDON: No, I do not. Let us get specific. You want to know the places where we pay taxes or where we make arrangements to make a payment in lieu of taxes.

Mr. LLOYD: Yes, and the reasons for it. That is all I want. A very brief statement by the railway would accomplish this. There may be some statutory exemption which goes back a number of years and the agreement may have been negotiated because of a promise on your part to do some extra construction if you got an attractive tax rate.

Mr. GORDON: Well, there are an awful lot of them.

Mr. LLOYD: It is the lack of this information that has been frustrating municipalities for many years when trying to make reasonable requests of the C.N.R.

Mr. GORDON: This is exactly the point.

I suggest, Mr. Chairman, that this committee should not be used in that fashion. I suggest to you that we should be treated the same as a business corporation conducting our own negotiations with each individual municipality and that this committee should not be used for the purpose of getting from me a statement that will enable them to find new arguments and new situations that will make our position more difficult.

Mr. LLOYD: Well, it is becoming increasingly apparent you do not want to give this information.

Mr. GORDON: No, I do not want to give it.

Mr. LLOYD: And, you do not think it is in the public interest to give it?

Mr. GORDON: I do not think it is in the public interest to give it.

Mr. LLOYD: And, you do not think it is in the interest of the Canadian National to give this information?

Mr. GORDON: That is what I think.

Mr. LLOYD: And, you think that a royal commission in Great Britain which recently examined the harbours board installations, and stated these kinds of facts are essential to properly evaluate economic considerations of government policy, was wrong and you were right.

Mr. GORDON: I do not know what they said. I never read that report.

Mr. LLOYD: I will provide you with a copy before you leave this committee.

Mr. GORDON: I will be glad to read it.

Mr. LLOYD: Mr. Chairman, I will leave it at that. I do think we should get the information.

Mr. HORNER (*Acadia*): In respect of railway operating revenues on page 3, it states here that export grain shipments were greatly responsible for the higher revenues. I think it was said in former committees that grain shipments accounted for 27 per cent of the freight and 10 per cent of the revenue. What are the figures for 1963 in that connection?

Mr. GORDON: I think these are the figures you are requesting.

In 1963, in respect of grain, we handled 11 million tons, grain products 2.9 million, for a total of 13.9 million; all other commodities, 70.2 million, which totals 84.1 million. Now, the percentage of grain to total tonnage was 13.1 and, if you include grain and grain products, it is 16.5.

Mr. HORNER (*Acadia*): That is the hauling.

Mr. GORDON: Yes, the total tonnage hauled.

Mr. HORNER (*Acadia*): Now, would you give me a comparison of the revenue received or have you that broken down? I am sure you gave it to us for other years.

Mr. GORDON: No, I have not that broken down. We have not analysed 1963 yet.

The CHAIRMAN: Can you get that information for us?

Mr. GORDON: I doubt it very much. It takes a little bit of analysing and we have not it ready yet.

Mr. HORNER (*Acadia*): Would you say that hauling the increased shipments of export grain helped increase generally the over-all revenue of the C.N.R.

Mr. GORDON: I would say yes, in the short run.

Mr. HORNER (*Acadia*): You say you would say yes in the short run?

Mr. GORDON: Yes. It all depends whether you are talking gross or net. But, the gross figure for grain revenue in 1963 was \$8.7 million.

Mr. HORNER (*Acadia*): That is the increase?

Mr. GORDON: The increase in the grain revenue, yes.

Mr. HORNER (*Acadia*): I take it from this that this is helping the financial net picture of the Canadian National?

Mr. GORDON: Yes, it would depend on what you figure out is net, and that is the figure I have not figured out yet.

Mr. HORNER (*Acadia*): You agree with me and then you confuse me. I do not understand.

Mr. GORDON: Well, you see, you have to remember always in respect of grain discussions that an increase in handling grain in the short run is beneficial but in the long run if we were handling that amount of grain it raises a question then in regard to our equipment, what expenses we have incurred in respect of the railway lines, the amount of equipment and so forth, and whether our capital expenditure necessary to handle the grain in the long run gives us a net revenue, and that becomes a cost accounting matter.

Mr. HORNER (*Acadia*): You are not certain in your own mind in the long run whether or not we do help the C.N.R.?

Mr. GORDON: That is right.

Mr. HORNER (*Acadia*): You have not convinced yourself whether you can make money on the Crowsnest pass?

Mr. GORDON: No, I did not say that. In the long run it depends on what is the amount of the increase. I think you are talking about increased traffic.

Mr. HORNER (*Acadia*): Yes.

Mr. GORDON: In order for me to determine whether this is beneficial I would have to have it analysed in terms of the amount of increase in respect of the cost of handling it.

Mr. HORNER (*Acadia*): I realize that. I am only trying to obtain some information in respect of the bottom part of this particular paragraph which deals with freight rate subsidies and which lists those that are paid out. I am not trying to analyse what you think in your mind should be tacked on to that figure for a grain subsidy. This is what I am trying to arrive at. You said there would be nothing, and now I am not so sure about that.

Mr. GORDON: The total amount mentioned in the MacPherson commission report showed \$22.3 million.

Mr. HORNER (*Acadia*): For Crowsnest pass?

Mr. GORDON: Yes, in respect of the potential payments that might be payable to the railways, subject to proof.

Mr. HORNER (*Acadia*): Did they suggest any amount of grain carried for that loss—the one assumed of the grain carried?

Mr. GORDON: They arrived at a figure for the purpose of their report of \$22.3 million for both railways. I have not the breakdown in mind now for Canadian National Railways and Canadian Pacific but it does not matter for your point; that is a maximum figure in the MacPherson recommendations. That is the figure for which legislation will provide if the railways will prove their cost in that respect. Subsidies may be payable up to that extent. If you are right, there may be none.

Mr. HORNER (*Acadia*): I am just agreeing with what the Minister of Transport said in Saskatoon; assuming the maximum shipment for both railways, one can only agree that the Crowsnest pass rates made their money. I am accepting exactly the picture given by the minister in Saskatoon.

Mr. PICKERSGILL: I suggest, if it is not rude to do so, that Mr. Horner speak for himself and not say what the Minister of Transport said in Saskatoon.

Mr. HORNER (*Acadia*): Then let us hear what you said in Saskatoon.

Mr. PICKERSGILL: I would want to see the record of what I was supposed to have said in Saskatoon, because I had no text there at any time.

Mr. KINDT: Is Mr. Horner misquoting you?

Mr. PICKERSGILL: No, I do not say that at all; I merely say that I prefer to make my own statements. I have never attempted to quote Mr. Horner.

Mr. KORCHINSKI: Mr. Gordon says that green wheat hauling has produced an increase in revenue, and so on. In other words, despite the fact that box cars may have had to return empty—in terms of the short run—this still can manage to produce an increase in revenue. Is that right?

Mr. GORDON: Certainly an increase in gross revenue, but I do not know about net revenue. You see, we are talking here about rather technical questions of cost accounting. It is a question between our variable cost and the all-in cost.

Mr. KORCHINSKI: You are attempting to drag this out. We are talking about short-run effects. You are also trying to drag in other expenses in which you may be involved.

I think several years ago one of the big arguments was that box cars had to return empty and that that has resulted in a loss of revenue or no revenue at all to Canadian National Railways. In this case, despite the fact that you perhaps go back empty in many instances, you still contend that on the short run you are still showing a greater profit?

Mr. GORDON: This is the same problem one finds with the peak load. At any given point one obtains a sudden upsurge of profit. In the short run one is likely to make money on it. However, if one has to provide for all the capital costs that go with continuing that amount of traffic, then one has to analyse it to see what one's capital costs are in continuing it. We can always do an emergency job; and this is what happened with the Russian wheat job. In an emergency job people will buckle to, and we find that we can get extra shippers and transportation people who will put up with a lot of inconveniences in order to get the job done. However, one cannot do that forever; one has to buy the equipment and recognize in order to meet the long term. It is at that time that one has to see if one can obtain a net profit out of the new volume.

Mr. KORCHINSKI: But if, as you suggest, you are allowed a new depreciation system, that system would take this into account, would it not?

Mr. GORDON: No, I am speaking about an operating expense.

Mr. KORCHINSKI: I think you are suggesting that you may have to rebuild and so on and see how much maintenance will have to be done. Will that be taken into account with the different depreciation system you suggest?

Mr. GORDON: No, the depreciation there will work automatically because the depreciation is based on the usage of our equipment. If we have to buy new equipment there is a depreciation charge to our account based on that equipment. In other words, our capital cost goes up and our operating cost is increased for that new equipment, so that has nothing to do with the question you are asking. It depends upon the amount of equipment we may have to buy at any given time. The operating cost is a different story altogether.

Mr. KORCHINSKI: It may be a different story in the case that you mentioned, but you take into account the use of the box car against the use of facilities and so on, against grain haulage, in your calculations to see whether you have made a profit or a loss, so that—

Mr. GORDON: That is part of the charges, yes.

Mr. KORCHINSKI: Therefore you have still to take into account whether or not that equipment can be replaced?

Mr. GORDON: Yes.

Mr. KORCHINSKI: I contend, therefore, that with an increase in the service—despite the fact that you have had to return empties—that has paid for itself and, therefore, your previous argument that they have had to come back empty does not hold water any more.

Mr. GORDON: I do not know what is the argument of coming back empty. Did that come out in the commission hearings?

Mr. KORCHINSKI: I can remember the discussion several years back.

Mr. GORDON: It is only an incident in regard to the total cost. When one costs any particular equipment, one takes everything into account. Depreciation would be one of the things which one would take into account.

Mr. KORCHINSKI: Then we will discount that argument entirely.

Mr. GORDON: No, that is not the conclusion.

Mr. SOUTHAM: My specific question was asked by my friend Mr. Horner with regard to the increase in revenue. At the top of page three you have listed an improvement of \$25.7 million in operating revenue over 1962, and you specifically mention potash, export grain shipments and increased shipments of automobiles and parts.

As I say, you have answered one part of my question. Further on, on page nine, you mention emergency grain handling and you say that 1,000 hopper cars which were normally used for hauling gravel were equipped with plywood tops in Canadian National shops, and placed temporarily in grain service. This was done in order to increase the supply of cars for wheat traffic.

Would this curtail your operating revenue in any other section of your service, or was this able to be done in addition to your other services?

Mr. GORDON: No, these were cars that were normally not used in the wintertime, cars used in the movement of a type of traffic that did not move in the wintertime. We seized them and covered them with plywood tops and we moved them in the winter.

Mr. SOUTHAM: In other words, it did not cause too much additional expense?

Mr. GORDON: It involved the cost of plywood tops, yes.

Mr. SOUTHAM: With the large increase of movement in export grain and the resulting revenue from it, would your attitude appreciably change towards representations that were made, say, to the MacPherson royal commission on railway abandonment? I am thinking here, sir, of something about which the people of western Canada are very sensitive. This is a question they have asked me. Would there be a change of attitude on behalf of Canadian National Railways or the Canadian Pacific?

Mr. GORDON: No, I inquired into that question. I inquired whether the new volume of export wheat would change any branch lines, and the answer I received was no, that there would be no appreciable significance in any of those branch lines that we have considered as candidates for abandonment.

Mr. HORNER (*Acadia*): Have you ever published those branch lines?

Mr. GORDON: Yes, they have been notified to the Board of Transport Commissioners and they are a matter of public knowledge.

Mr. SOUTHAM: The evidence you gave last year to the MacPherson royal commission, in regard to the number of applications you made to the board of transport commissioners on railway abandonments, showed that you were in a bad position for competitive reasons, in particular for the reason that they had made a similar number of curtailed applications to the board of transport commissioners for railway abandonment. In other words, in the over-all terms of this problem, has there been any appreciable change?

Mr. GORDON: I understand that the Canadian Pacific Railway has filed some branch line abandonments, but I do not think they have said that they have filed all of them. We have been trying to put before the board all the essential candidates, but I do not know whether Canadian Pacific have done that or not. It was their declared policy at the time that they did not wish to do this.

Mr. SOUTHAM: It is pretty well known that Saskatchewan is the largest grain shipper. Any revenue from grain handling is more applicable to Saskatchewan than to some of the smaller exporting provinces.

Mr. CROUSE: On page three an increase of \$0.4 million was mentioned in the amount received from railway freight under the Maritime Freight Rates Act within and over the Atlantic provinces? Would this cover freight, for example, that is shipped on the ferry *Bluenose* from Yarmouth to Bar Harbor?

Mr. GORDON: I do not think the freight rates come under the maritimes act. Is that your question? Are you asking whether traffic on the *Bluenose* comes under the Maritime Freight Rates Act?

Mr. CROUSE: Could you also tell me if the *Bluenose* is making a profit or loss at the present time?

Mr. VAUGHAN: Your first question with regard to the Maritime Freight Rates Act is one which I can answer. I do not think that it would apply to the *Bluenose* as the act applies only to rail-carried traffic. In the preferred territory, which is the Atlantic provinces, there is a 20 per cent reduction; and 20 per cent out of the preferred territory, that is from Levis to Quebec.

The answer to the second question with regard to the *Bluenose* is that the deficit last year, I think, was around \$190,000.

Mr. CROUSE: In view of your concern—and I appreciate it—with regard to operating the system at a profit and in view of the fact that the *Bluenose* is now operating at a deficit, would you be inclined to endorse the establishment, for example, of a second ferry which has been proposed and which would be helpful to the fast transportation of our fresh fish from our newly expanding fishing fleet, or would you have a tendency to perhaps turn thumbs down on the proposal in view of the result it may have on your profit?

Mr. GORDON: That would not be a matter for our decision. We do not pay a deficit on the *Bluenose*. We operate the *Bluenose* for the government as managers and the deficit is paid by the Department of Transport. If there were an application for another ship based on a market analysis of potential traffic, then the Department of Transport would have to determine whether or not they were prepared to sponsor another ship. It would not be our decision.

Mr. VAUGHAN: I now have the figure for 1963. In 1963 the deficit was \$217,107. In 1962 the deficit was \$194,000.

Mr. HOWE (*Wellington-Huron*): I have a question for Mr. Gordon in connection with the last sentence in the first paragraph which says that:

While revenue ton miles were up 12.9 per cent to 40.2 billion, the average revenue per ton mile declined 7.5 per cent.

Could Mr. Gordon explain why that revenue was down?

Mr. GORDON: That arises out of mixed traffic. I am almost afraid to mention that one of the reasons it is down is that we handle so much grain. Obviously, if we handle some traffic at a rate below the previous average, it will reduce the percentage. Grain was not the only thing, but the fact that we handle so much would reduce the revenue per ton mile. However, there is another thing which involves incentive rates to get larger loading on our cars, and so forth. It is an incentive factor, but on the mixed traffic it is less per ton mile.

Mr. HOWE (*Wellington-Huron*): On shipments for automobiles and parts, it is mostly attributable to the parts that you put on gondola cars?

Mr. GORDON: You mean the tri-level special type cars for handling the automobiles?

Mr. HOWE (*Wellington-Huron*): In other words, you are getting much more of that traffic now?

Mr. GORDON: Much more, yes; they have been quite satisfactory.

The CHAIRMAN: Are there many questions on the final review? Can we carry on with that this afternoon and then go on to development this evening?

Mr. REGAN: There are some aspects of it that will tie in with the outlook.

Mr. FISHER: I have one question.

You have an item in here which relates to the job security fund. Mr. Gordon and I know that the spokesman for the C.P.R.T. and T.W. made the point that their union is quite dissatisfied with their last agreement. They felt they had made concessions—and I quote—that “would put us in an advantageous position in the year’s negotiation and in order to establish the job security fund”, which incidentally is not even working yet. What is the amount that has gone into the job security fund, and is it likely to be put into effect and to be used?

Mr. GORDON: The origin of the job security fund, you will remember, was propounded by the board of conciliation under Mr. Justice Munroe in 1961. This fund was a fund set up in order to mitigate the hardship of long service employees where positions became redundant. On the basis of that agreement it was to be one cent per hour on the basis of the then current employment levels, and our estimate—which I have before me here—was that it would cost Canadian National Railways alone about \$1.2 million per annum. From the time at which the fund commenced and to the end of February 1964, the total amount accumulated by Canadian National was \$1.423 million, and this would be roughly 60 per cent of the fund. You can deduce from that the proportion contributed by the Canadian Pacific Railway would be about 40 per cent beyond that making a total fund of about \$2 million. It was stipulated that a committee would be formed for the purpose of determining how to administer this fund. It was also stipulated, as I recollect, that failing agreement there would be arbitration upon it. They have not reached agreement, neither have we applied for arbitration; and the matter is in that position at the moment.

Mr. FISHER: You will continue putting the money in?

Mr. GORDON: We will continue putting the money into it and that raises a great deal of difficulty in retroactive payments.

Mr. PASCOE: On page four the report refers to controllable benefits. Page four talks about increased use of leased cars. I wonder if the new dome cars that are being put on are leased cars.

Mr. GORDON: No. Where is the reference to controllable expenses?

Mr. PASCOE: Under "Railway Operating Expenses" it is stated that the higher costs were partially offset by close attention to controllable expenses.

Mr. GORDON: Well, "controllable expenses" means those expenses that the management can actually control by insisting upon rigid forms of economy.

Mr. PASCOE: Such as?

Mr. GORDON: Well, almost everything in regard to the operation of the railway. We would make a close examination to see whether or not there was wasteful use of, let us say, fuel oil. It really means the close attention of management at all levels to eliminate waste in every way possible. It also affects labour content in respect of whether or not we have too many employees in relation to the work done; and that is another form of controllable expenditure. In our industry, the labour content is so high that we have to watch it with great care. The leased cars have nothing to do with domestic cars at all; they have to do with the use of foreign cars as they come into us from foreign railways, namely from the United States. We can use them under a formula basis and we pay so much per day. We make per diem payments when we use a car of a foreign railroad, and they pay us a per diem payment when they use our cars in the United States.

The CHAIRMAN: Mr. Kindt.

Mr. KINDT: May I call it six o'clock? May I put my question when we resume?

The CHAIRMAN: Is it on this topic?

Mr. KINDT: Yes, indeed; it is on capital expenditure.

The CHAIRMAN: The committee is adjourned until eight o'clock this evening.

#### EVENING SITTING

TUESDAY, June 16, 1964.

The CHAIRMAN: Gentlemen, we have a quorum.

Mr. LLOYD: Mr. Chairman, I indicated this afternoon that I would like briefly to follow up some questioning I undertook with respect to taxation. I referred Mr. Gordon to the report of the committee of inquiry into major ports of Great Britain, of September, 1962, and I made reference to that document. You mentioned, Mr. Gordon, that you were not aware of it. It contains some very sound enunciation of principles with respect to depreciation, of public facilities, and also with respect to taxation. I shall leave it at that. You expressed some interest in it. I believe you are interested in any new material. I wanted to put on the record the fact that I was referring to something specific, and not referring to a mythical report.

Now, I would like to turn to page 324 of the proceedings of this committee at our last session. Following some questioning by Mr. Balcer on the matter of exemption of the Bell Telephone and Telegraph lines, you were asked why

the railway company did not enjoy the same exemption as the Bell Telephone Company, and I interjected as follows:

Mr. Lloyd: The minister knows full well the repeated efforts we have made. I will try another minister, another opportunity, in another place. The more information you can provide before the next session at a committee of this kind on the incidence of municipal taxation to which you are exposed right throughout Canada in all forms, the better I would like it.

When I said that I would try another minister at another place I meant we were making representations through the Mayors' Federation to the National Harbours Board. Since that time a brief has been submitted dated February, 1964 to the Minister of Transport. On page 2 of that submission this statement is made:

Crown corporations, both proprietary and agency, are exempt from the provisions of the Municipal Grants Act. Such corporations have been authorized by cabinet directives to "work out fair and equitable agreements with the municipalities in which their properties are situated."

The C.B.C. and other crown corporations have voluntarily followed the universal policy established under the Municipal Grants Act. It is significant to note that the St. Lawrence Seaway Authority also makes grants in accordance with the procedures established under the Municipal Grants Act.

The C.B.C., you will notice is revenue deriving to some extent, and is also subsidized. The St. Lawrence Seaway Authority is a revenue financed authority and it is also deficit financed by the Canadian Government. So there is an analogy between these two crown agencies and the one which you head up.

Now, in seeking information about your policy with respect to taxation I was trying to find out if you followed any consistent municipal tax policy. By tabling a schedule, if you like, of the kind of liabilities that you have, the reasons for exemption, and the reasons for agreements, we might be able to establish a course which would produce some uniformity ultimately.

You said that this matter of local taxes it was left to the municipalities to protect themselves. You said you would not provide any information. Last year on page 324 I quote:

The more information you can provide before the next session at a committee of this kind on the incidence of municipal taxation to which you are exposed right throughout Canada in all forms, the better I would like it.

Mr. Gordon: We will certainly take a note of that, and I will study the thing a little more carefully.

I understand you have studied the matter and that after your study you have concluded that you do not want to give us any information. Is that your position still?

Mr. GORDON: I do not know what your question is.

Mr. LLOYD: My question was:

The more information you can provide before the next session at a committee of this kind on the incidence of municipal taxation to which you are exposed right throughout Canada in all forms, the better I would like it.

Mr. Gordon: We will certainly take a note of that, and I will study the thing a little more carefully.

You did not commit yourself to anything, but you said that you would study the matter. Did you make such a study?

Mr. GORDON: I think the point is pretty clear that our position is that we deal with taxation authorities in any particular area in accordance with the demands that are made upon us. I do not think this committee should be used as a forum for obtaining information on a basis of exposing every discussion that we might have with various types of local authorities affecting forms of taxation, because each place usually has something different from the other. It would not be possible to bring out the particular implications on a basis which would achieve what you call uniformity.

I think you used the expression that municipalities had to look after themselves. The reverse applies to the Canadian National Railways, which has to look after itself. The Canadian National Railways deals, in my belief, fairly and equitably with every taxation authority which has power to impose taxation upon us. It becomes a matter of discussion with the particular authority in terms of the local conditions. I think that is the way it should remain.

Mr. LLOYD: Would that still be your answer in the case of the Nova Scotian hotel in Halifax where the Lord Nelson hotel has no exemption, and you have initiated a taxation agreement with the city?

Mr. GORDON: Certainly that is a case in point. Whatever negotiations we have had with the city in Halifax have been made on the basis of knowledge to both sides of the discussions, and of what was involved. I would not be prepared to accept your general statement about the Lord Nelson without having the whole case exposed, because most certainly in the negotiations with the city of Halifax they have been based on the particular facts which arose in that case, and that is exactly what I mean. I do not think this committee should be used as a general forum in respect of discussions which might take place from time to time in regard any matter of local application.

The same thing applies in regard to court cases for example. These court cases should be dealt with on the evidence produced to the court. I shall have something more to say about this later, if the matter comes up. It should be based on the specific incidents of the case. That is why I am reluctant to attempt to produce the overall details of the incidence of taxation as it applies to every place in Canada. These things—the actual statements that may be made in the various places—are matters of public knowledge there but I do not think we can produce or we should produce the kind of information that I think you are seeking, because it means that one set of facts might be used to support an argument in regard to another set of facts where local incidents are quite different.

Mr. LLOYD: You cannot define a general policy with respect to municipal taxation?

Mr. GORDON: I can define it in this way.

Mr. LLOYD: You mean whoever is the smartest will get away with it. If you can get away with the least amount of taxation, you will try to do so.

Mr. GORDON: No, that is a rather harsh way to put it. I think that municipal authorities anywhere are quite as competent as we are to uphold the case of the municipality for any legitimate taxation. If we have a case to advance in respect of taxation, it is our duty to do so. We make a settlement of agreement with local authorities on that basis. So far we have not had much trouble, when we have reached agreements.

Mr. LLOYD: There was an extreme case of injustice in the maritimes some years ago. For many years the railway contended that the I.C.R., being an emanation of the province directly should therefore enjoy taxation exemption privileges under the British North America Act. But with respect to those companies which the Canadian National Railways had taken over and continued as legal entities, you continued to pay taxes on the property which was in the title of such companies. That was the argument presented to us after a very expensive search effort, after engaging auditors, engaging counsel, and taking it right to the courts, or taking it right to the threshold of a court case. The case was just about to be heard when the Department of Justice came in and said that the matter had better be settled out of court.

Now, one of the reasons for that action was the discovery that the railway had been paying taxes in the city of Toronto in direct violation of the explanation that had been given to us by its officers. I merely offer this to you to justify my curiosity.

Mr. GORDON: You see, Mr. Lloyd, that is why I think this discussion is quite unfair, because you are giving your version of a situation with which I may not agree. I am quite sure you are giving an honest version.

Mr. LLOYD: I was there during those negotiations while you were not. I am acquainting you with some history of which you do not possess the intimate knowledge that I do.

Mr. GORDON: All right, I am simply saying I am not prepared to accept your version. I would rather hear the version given to me by my own officials. Whenever there is a dispute about taxation, there are two sides to it. In the negotiations which take place a complete and final settlement is made, and all these considerations are taken into account. The essential fact is that the taxpayer under any circumstances anywhere under any conditions is quite entitled to take full advantage of what the law says.

Mr. LLOYD: Then you agree, Mr. Gordon, that instead of waiting for the railways to negotiate action to remove inequities in taxation a municipality should very vigorously pursue a course of action to correct the situation and adopt whatever remedy is available to it to correct the injustice?

Mr. GORDON: The municipal authorities under any circumstances have a duty, just as we have, to exact all the taxes they can legally collect from anyone.

Mr. LLOYD: So that in the case of this rule of 50 per cent on real property taxation in connection with the I.C.R., the only recommendation one can make to municipalities would be to pursue a correction of that remedy possibly with the Minister of Transport rather than with you, by legislation perhaps?

Mr. GORDON: I am not giving any legal advice. It is up to the municipal authority to take what ever action they think is right.

Mr. LLOYD: As a crown corporation you are different from other crown corporations including the C.B.C. and St. Lawrence Seaway in seeking fair and reasonable taxation agreements with municipalities, and you think the procedures followed by other corporations should not apply in principle to the Canadian National Railways; is that right?

Mr. GORDON: That is not what I said. You insist on making your own interpretation in regard to everything and I am not prepared to accept any interpretation you have made so far.

Mr. LLOYD: May we close our discussion on that point and state that each of us has our own interpretation in respect of these things?

Mr. GORDON: By all means.

Mr. LLOYD: Let me ask you one further general question. If you found a private hotel operation in a municipality in respect of which were paid full municipal taxes would you try to negotiate a tax agreement for a C.N.R. hotel proposed in that municipality.

Mr. GORDON: I am not prepared to answer any hypothetical questions. I will answer a question when the facts are stated, and will always do the best I can under the circumstances.

Mr. LLOYD: I should like to state for the record the case of the City of Halifax and the Canadian National Railways, the company indicated to the city it would not undertake to build an addition to the Nova Scotian hotel unless it reached a tax agreement. At that time the Lord Nelson hotel was paying full taxes on an assessment basis to the city of Halifax.

Mr. VAUGHAN: Is it not a fact that the management of the Lord Nelson hotel, if it was going to build an extension, had tax relief?

Mr. LLOYD: That was subsequently correct.

Mr. VAUGHAN: Yes, so the Nova Scotian hotel extension was in the same position as the extension to the Lord Nelson hotel.

Mr. LLOYD: Unfortunately it was not in the same position.

Mr. VAUGHAN: It was not completed but the principle was the same, was it not?

Mr. LLOYD: I think the situation would be different if what you say is correct.

Mr. VAUGHAN: Was the situation the same?

Mr. LLOYD: The situation was not the same and if it had been the same, Mr. Vaughan, you suggest that a fair and reasonable attitude on the part of the C.N.R. would be that which allowed you to follow the practice in respect of each municipality and that if a municipality was not granting exemptions to competitors of the C.N.R. you would not seek tax agreements?

Mr. VAUGHAN: I do not agree with that statement, no.

Mr. LLOYD: In other words, if you could get away with a tax agreement or exemption in Vancouver you would do so?

Mr. VAUGHAN: It takes two to make an agreement as you realize, Mr. Lloyd, the city of Halifax and the C.N.R.

Mr. LLOYD: Surely there is a slight difference between subsidies to the Canadian National Railways on deficit financing by the taxpayers of Canada and some other private agency? Surely there is some difference in the situation?

Mr. GORDON: There is no difference whatsoever. The Canadian National Railway is running its business and trying to run it on commercial principles. When there is any expense, which includes the question of taxation, we will employ exactly the same attitude as any private enterprise or corporation to resist the tax if and when we have a legal basis for doing so.

Mr. LLOYD: I appreciate your observations Mr. Gordon, but I cannot help but observe that the only recommendation I can make to the municipalities is to take heed of your observations, and employ every means in their power to see that you pay fair and equitable taxes which is not the case in respect of the Atlantic provinces.

Mr. GORDON: That is exactly what municipalities do in every case. I have never found a gleam of sympathy on the part of any taxing authority. If we make a bargain at any point, as we have, in regard to a hotel being constructed in a certain place on the basis of being granted an exemption from taxation, that represents a business deal. This does happen in respect of hotels in other

places, where by reason of an undertaking that we will build a hotel, we receive relief or adjustment in respect of taxation for a period of years; there is nothing unusual in that regard. That is the type of bargain which is made every day.

Mr. VAUGHAN: Taxing authorities give taxation relief to industry for certain periods of time.

Mr. GORDON: Of course they do.

Mr. LLOYD: It has become apparent that most crown corporations will seek the same relationship in respect of taxes in municipalities that private enterprise enjoy in those municipalities and if there is an exemption they seek it. However, in answer to a question I asked you last year you indicated that the C.N.R. did not seek an agreement with the city of Montreal.

Mr. GORDON: I did not say we did not seek an agreement. I said we did not come to an agreement.

Mr. LLOYD: Did you seek an agreement?

Mr. GORDON: I am not going to answer that question.

Mr. LLOYD: You are paying full taxation in Montreal, as you stated last year.

Mr. HORNER (*Acadia*): Mr. Chairman, before we conclude our discussion in respect of the paragraph dealing with railway operating revenues and subsidies received by railways under various acts of parliament, I should like to ask Mr. Gordon a question particularly in respect of the Crowsnest pass rates and subsidies outlined by the MacPherson commission regarding branch line abandonment. Do you think the railways are justified in asking for subsidies over a period of 15 years, as suggested by the MacPherson royal commission in respect of branch line abandonments?

Mr. GORDON: Yes, I do, indeed, on the basis which the commission has recommended. As I have said before, the situation is that the railways will apply for abandonment of a particular line and give in support of its application detailed information, which the board of transport insists upon. These applications are very, very detailed and difficult to make, and if the board hears that case and determines in its judgment that, in spite of the proof we have shown that a line should be abandoned, it should nevertheless be continued in the public interest, a subsidy, as I understand it, becomes payable. I use the board of transport here as an example because I understand there are further amendments in regard to who may sit in judgment of the branch line rationalization fund, but there will be a board of some form. Only when that board finds our application is justified, and there is reason for abandonment of a line because of alternative transportation facilities, will that board grant permission for abandonment, I presume. If they do not grant permission for abandonment of that line because public interest is greater than the loss sustained by the railways, it will then instruct the railway to continue the line and we then become entitled to a subsidy. That is the way I understand the recommendation of the commission which I hope will be incorporated in the legislation.

Mr. HORNER (*Acadia*): Perhaps I might direct one or two further questions to Mr. Gordon, Mr. Chairman.

You outlined very clearly that the MacPherson Royal Commission suggested that the \$22 million subsidy be granted on a proportionate basis to the Canadian Pacific Railway and the Canadian National Railways to compensate for the Crowsnest pass rates agreement. Could you indicate to the committee what your interpretation of the MacPherson royal Commission's recommendation is in regard to branch line abandonments over a period of 15 years?

Mr. GORDON: I do not think I can do that, but I should like to state that the figure mentioned by the MacPherson royal commission is, as I understand it, a maximum sum.

Mr. HORNER (*Acadia*): What is the maximum suggested?

Mr. GORDON: I think I mentioned the figures earlier.

Mr. VAUGHAN: Are you referring to branch lines, Mr. Horner?

Mr. HORNER (*Acadia*): Yes.

Mr. VAUGHAN: I think the MacPherson royal commission recommended \$13 million be divided.

Mr. HORNER (*Acadia*): That recommendation related to a 15 year period?

Mr. VAUGHAN: The recommendation related to \$13 million per year.

Mr. GORDON: You are referring to branch lines?

Mr. VAUGHAN: He is referring to branch lines, yes, and the figure of \$13 million per annum was to be allocated between the two railways in accordance with the formula set up.

Mr. HORNER (*Acadia*): I am just suggesting that in the future the \$22 million, split roughly in half, although the Canadian Pacific Railway handles more grain than the Canadian National Railways, and the \$13 million, could well be added to the total subsidies here, which is \$70 million.

Mr. GORDON: Oh, no; that is completely wrong. You see, when you look at the subsidies mentioned on page 3 you have to keep in mind that when the MacPherson commission recommendations go into force, the interim payments you see there, the \$29 million, will be eliminated at once as the \$50 million subsidy will be abolished.

Mr. HORNER (*Acadia*): The interim payments and what?

Mr. GORDON: The interim payment of \$29 million is our share and the total is \$50 million. That \$50 million interim payment will be cancelled; that comes out of the picture altogether. And then we get into the question of the freight rates reduction subsidy and, as I understand it there will be a transition period but eventually, in the course of a year or less, depending on the legislation, that freight rate reduction subsidy will also be cancelled because we will be free then to raise the rates as we think we can get the payment made under competitive conditions.

Mr. HORNER (*Acadia*): So, in a sense, if you were compensated in your own mind—you are compensated in my mind now—for the Crownest pass rates and the branch lines you still would have a deficit in 1963 of \$43 million or more.

Mr. GORDON: I do not follow that. Would you repeat your question.

Mr. HORNER (*Acadia*): You are suggesting when you are compensated for these services, the Crownest pass rates through the prairies and the branch lines which you have to put up with in the prairies, that this interim payment will be done away with and the freight rate subsidy will be done away with, namely \$29.1 million and \$10.1 million.

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): Will be done away with.

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): This totals \$39.2 million. Do you suggest that in the MacPherson royal commission there are \$22.2 million suggested as compensation for the Crownest pass rate and \$13 million compensation for the branch lines.

Mr. GORDON: But, there is a passenger deficit subsidy recommended by the commission.

Mr. HORNER (*Acadia*): I am not dealing with that at the present time. This passenger thing is an item unto itself. I am dealing with the hauling of freight and the problems involved in that, and I am trying to arrive at this short fall, to use your own expression used earlier this afternoon, with regard to the depreciation write-off which should have been written off in the earlier years.

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): And, I am trying to judge it on this basis and to give you the benefit of the short fall.

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): I am trying to give you the benefit of the Crowsnest pass rates.

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): And I am trying to give you the benefit of the branch line handicap, shall we say, and I am trying to arrive at an accurate accounting of this, if you follow me. I am trying to equate the management and employee efficiency to the spring of 1964 and I still see, after equating this in my mind, a deficit for 1964.

Mr. GORDON: Yes, if the recapitalization did not take place.

Mr. HORNER (*Acadia*): But, even with the recapitalization?

Mr. GORDON: Oh, no. Let me summarize it this way. If the MacPherson commission legislation went through, and nothing else, the nearest I could estimate—and I am making assumptions about the legislation—is that out of that legislation we would not benefit more than about \$10 million or \$12 million.

Mr. HORNER (*Acadia*): \$10 million or \$12 million?

Mr. GORDON: Yes, that is a guess. Therefore, with a deficit, as you see last year, of \$43 million, we still would have a deficit.

Mr. HORNER (*Acadia*): Of \$30 million?

Mr. GORDON: \$31 million, again making allowances for whether or not we have a better year and so on, but, using the 1963 figures. So, therefore, we must have a recapitalization.

Mr. HORNER (*Acadia*): And, that would do away with the \$31 million.

Mr. GORDON: Yes, if we get the recapitalization proposals as I presented them, then I have said in answer to other questions that this plus the MacPherson commission legislation should mean we would have a profit position. I am not prepared to say how much but I do say we would eliminate the deficit.

Mr. HORNER (*Acadia*): Well, the member's figuring from the Northwest Territories is always better than mine.

Mr. GORDON: Yes, he is figuring.

Mr. HORNER (*Acadia*): And, mine is not that far out that I cannot arrive at a relatively close figure as to what you are assuming the government should write off or assume. I should not have used the words "write off".

To follow up on this question of branch lines and branch line abandonments, many of which are contemplated in my constituency, it is a fact that many of my constituents ask me how this is figured out. Are grain shipments arriving at, let us say, point A credited with actually being shipped from point A or are they credited with being shipped from the main line? Do you follow my thinking in this regard?

Mr. GORDON: Yes, but you are getting pretty deeply into the business of cost accounting.

Mr. HORNER (*Acadia*): But, this is the very place in which many constituents say to me: "the C.N.R. bring their books to the hearings and who can dispute their books; they have the figures, we have not".

Mr. GORDON: Well, there have been representatives of the provinces, one of whom is a very distinguished member and is in this room, who have made damn certain that the figures produced by the railways have been subjected to very close scrutiny, and he has done it very effectively, I will tell you.

Mr. HORNER (*Acadia*): I would not want to discredit his reputation in regard to ensuring that these figures are accurately presented. But, can you answer this question with regard to branch lines. Say, we have a branch line off the main line?

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): Or, relatively speaking, a main line.

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): Say, there are 19 cars of grain shipped this week from point A on the branch line; are those 19 cars credited as revenue from point A on the branch line?

Mr. GORDON: Yes. The branch line will be credited with any form of revenue it produces.

Mr. HORNER (*Acadia*): I often have appeared on behalf of community elevator agents on branch lines, and so on, in my constituency and time and again railways have presented figures which have told a story of relatively no income from point A and time and time again the elevator agent says, "I have shipped X number of cars from this point; the revenue should be designated as arriving at this point", and the railway representative says, "Oh, no, this is credited to the whole main line and we cannot charge this up, if it was not delivered at point A it would be delivered to point B on the main line, and we will get the grain anyway".

Mr. GORDON: The board makes a careful analysis of that. Here are the factors. The board of transport commissioners, in reaching a decision on an abandonment case is governed by this rule, which I will read—and they have stated this many many times: "The issue in each case resolves itself into a question of whether the loss and inconvenience to the public consequent on the abandonment outweigh the burden that continued operation of the railway line involved would impose on the railway company". These are the factors which the board require us to take into account, and I think I might just as well tell you what they are, as they require this information from us. First, the system revenues from branch line traffic; second, system of voidable expenses of branch line operations; third, estimated savings to railway from abandonments; fourth, trend in traffic pattern; fifth, relationship between year under study and an average year particularly for lines in western Canada where traffic is predominantly grain; sixth, present train service, type and volume of traffic; seventh, alternative services for freight, passenger, mail and express, both summer and winter; eighth, distance between stations and line to be abandoned and stations on alternate lines or to alternate services; ninth, population in the area served by the line and the population trend, increasing or decreasing; tenth, productivity of the area and its potential for future growth or new industries; eleventh, effect of abandonment on railway employees; twelfth, effect of abandonment on freight rates and over-all transportation; thirteenth, effect on local merchants; fourteenth, effect on property values, taxes, etc.

The whole thing ends up with the word "etc.". Therefore, the board can and does inquire into any possible question affecting the validity or otherwise of the application for abandonment. As you know, any witness with any interest along that line has a right to be heard when that abandonment case is to be considered.

Mr. HORNER (*Acadia*): I have one question with regard to the list of 14 criteria. Am I to assume that the board of transport commissioners and the railroad accept that list in that order of importance?

Mr. GORDON: Accept what? These items?

Mr. HORNER (*Acadia*): The 14 items.

Mr. GORDON: No, these are questions which we have to answer and they are weighed and judged by the Board of Transport Commissioners.

Mr. HORNER (*Acadia*): Are they weighed and judged in the order in which you read them out?

Mr. GORDON: I do not know; that is the board of transport commissioners' decision, not ours. We give the information.

Mr. HORNER (*Acadia*): On those 14 points?

Mr. GORDON: On those 14 points, yes.

Mr. HORNER (*Acadia*): Are they used by you or the board?

Mr. GORDON: By the board. We present the facts as best we can in regard to these questions.

Mr. HORNER (*Acadia*): But am I to assume that you feel the board of transport commissioners take them in that order of importance?

Mr. GORDON: I do not know. I have no way of knowing how the court weighs its judgment.

Mr. HORNER (*Acadia*): The way in which you read them out led me to feel—I could not help but feel—that this was the way in which you interpreted them when presenting your case in regard to their importance.

Mr. GORDON: Really, I do not know that we are going very far by discussing a hypothetical case because, after all, it gets down to the practical case and we reach a judgment in regard to a specific branch line and we apply for abandonment on the basis of the facts as we see them. Then we answer all the questions that the board may want us to answer in order to determine the validity or otherwise of our application.

Under the MacPherson royal commission report—and I keep on repeating this—it is important to recognize that our application for abandonment, even if agreed by the board as being a good case, is not necessarily conclusive because under the legislation as it will come out, and as I understand it, there is a further step taken by whatever the branch line rationalization body will be. I understand in the case of western Canada it is now under the Minister of Agriculture. If the board, body or group finds that nevertheless it is regarded in the public interest in western Canada in the particular area that that line should continue, then we become entitled to a subsidy, a subsidy based on the loss which we have been able to establish in the operation of that particular line. That is where this figure comes from.

Mr. HORNER (*Acadia*): In regard to the branch line subsidy, Mr. Chairman, I have a further question.

You have outlined, Mr. Gordon, very fully the facts with regard to your branch line approach. How many years, would you say, according to the cost accounting in Canadian National Railways, would a branch line have to be operating at a loss before you would apply for abandonment of this line to the board of transport commissioners?

Mr. GORDON: I do not think I can answer that specifically. It is a matter of judgment at the time. We keep these lines under observation as much as possible. At some point our local officials arrive at the conclusion that this line should be studied.

Mr. HORNER (*Acadia*): Certainly not one year?

Mr. GORDON: No, certainly not.

Mr. HORNER (*Acadia*): Not two?

Mr. GORDON: No.

Mr. HORNER (*Acadia*): Not three either?

Mr. GORDON: This becomes a matter for our local officials. They see the day to day operation of the line and in due course they reach a conclusion that there is not much traffic on that line and that we should look at it. Then they put in force a study of the line. It is not done overnight. We study many many cases in which we decide not to ask for abandonment. But somewhere along the period of time a line becomes suspect in the eyes of the operating officials and they report that a study should be made.

Mr. HORNER (*Acadia*): But you could not give the committee any idea—and I ask this bearing in mind that this was a very pertinent question studied by the MacPherson royal commission and a very pertinent question for this committee, bearing in mind that something like 1,000 miles of rail line are to be abandoned, according to Canadian National Railways, in the province of Saskatchewan—you could not give the committee some idea of how many years a line must operate in deficit, in your opinion, before you appraise it as such and abandon it?

Mr. GORDON: I do not think it is a matter of years, is it, Mr. Demcoe? It is a matter of the circumstances. We might very well let a line run on for years because we would think that what it amounts to is not worth while surveying, but we might regard it as a marginal case. At some point in our operations a line becomes suspect in the matter of the traffic it is handling and then the local officials will proceed to make a study of that and if they arrive at the conclusion that this is worth a major study, they will recommend that this be put through the machinery.

Mr. HORNER (*Acadia*): I have a couple of more questions if you will just bear with me, Mr. Chairman.

I would like to point out to you and the committee that during the late thirties the line on which I happened to live, which is a 70 mile branch line, was proposed by Canadian National Railways to be abandoned, yet today it is the best paying line in the Calgary subdivision. It is the best paying line with possibly two trains a week. This goes to re-enforce the point I was trying to make that we must have a period of years in which to decide that a line is not paying. We cannot have one, two or three years; we must have five, six or maybe even seven, ten or twelve years before a line is properly abandoned.

My further question with regard to branch line abandonment is this. What and where is the breaking point between abandoning a line and, say, just going up the line once a month with, say, 20 grain cars or whatever the line happens to need? Where is the breaking point in the operations of that branch line? Let us say, for example, Mr. Gordon, that we have a line 20 miles long or 30 miles long and which will move something like 20 or 30 box cars a month—I am just saying this for the general information of the committee and the provinces of the prairies—would that line then be considered economic if it operated 30 cars a month?

Mr. GORDON: I do not think you can really base it on that specific sort of thing. It would be very simple if we could do that. Our policy is that when we examine a line for the purpose of determining whether to abandon it because of thin traffic density, we have three major things in mind. First, we establish that the continued operation of the line itself is uneconomic. In that examination we take account of every operation on the line. Second, we decide that there is no apparent potential for improvement in the foreseeable future; and that is a matter of judgment. We are not always right, as you have pointed out. Third, we have to demonstrate that there are adequate alternative facilities available to handle the traffic in that particular area.

Unless we can decide those three things in our mind, we will not start looking at the abandonment of a line.

Mr. HORNER (*Acadia*): There were a couple of lines which were abandoned in the last couple of years in my constituency. I am not going to bring them into this, but my constituency has asked me time and again why our elevators could not be left and our railroad and why a train could not be run up there once a month or once every three weeks, as they were doing in one particular instance, taking out 19 or 20 box cars, relatively speaking a car a day, and just making the one trip up there?

Mr. GORDON: It is not as simple as that. You cannot just leave a railway line and figure that you are going to run a car or a train up the line once a month. You have to figure on the subject of safety and maintenance and so forth.

It costs just as much to maintain a line to run a train once a month, as it does to maintain it in good shape.

Mr. HORNER (*Acadia*): I disagree. There was a line left in my constituency for 20 years. There were gates across the railroad, and they ran a train once a month or once a year to take out the grain. It did not cost the railroad two cents to maintain that line.

Mr. GORDON: There is an upkeep cost.

Mr. HORNER (*Acadia*): I am not disputing that fact but I am trying to find out where the breaking point is, is it 20 cars a month, 10 cars a month, 30 cars a month on 20 miles, or could you give the committee, and myself particularly, some idea on where the breaking point is?

Mr. GORDON: That will depend entirely on the examination made by the board of transport commissioners. We will show the figures on the revenues we are making on the line, and what the expenses are. We will try to tell them anything about the potential of the line, and then the board has to make the judgment.

Mr. HORNER (*Acadia*): I have one further question pertaining to branch line abandonment. We both know the cost of moving grain. You know it better than I on rail, I know it better than you perhaps on road. Maybe I am assuming a lot here.

Mr. GORDON: I did not know I knew it better than you on rail.

Mr. FISHER: My friend here says C.N.R. is very wealthy.

Mr. HORNER (*Acadia*): I hear a snide remark from my friend here who would like to do away with the Crowsnest pass rates, but I have the Minister of Transport on my side. We are both stoutly defending them, and he and the president will be defeated in any move towards doing away with the Crowsnest pass rates.

Here is my question—I was sadly side-tracked.

The CHAIRMAN: Order, order.

Mr. HORNER (*Acadia*): I have a question with regard to the movement of grain. This is actually what we are concerned with. It would cost a farmer moving grain over 25 miles by truck up to nine cents per bushel. I say, and there may be farmers here who may correct me, this is a breaking point. I say that the railroad can well maintain many branch lines and move grain at less than that just by going in there once a month and taking that grain out in 19 or 20 car shipments.

Mr. GORDON: This becomes a question of fact.

Mr. HORNER (*Acadia*): I agree, and this is why I am getting down to facts.

Mr. GORDON: Remember this, that the problem of moving grain in western Canada is no longer a problem only for the railways. This whole question of the rationalization of the movement of grain is a much bigger question than merely the question of the railways. That is what I have been advocating all along, that the communities have to get together. A solution must be found which includes all the interested parties, the grain growers, the grain elevators, the provinces and municipalities, everybody concerned in it, not only the railways. However, so far all the emphasis has been placed simply on the fact that the railways have been handling grain under a specific condition. I am suggesting to you—and I am getting a little wide off the field now—that under certain circumstances it is not in your interest as a grain grower to have the railway move your grain.

Mr. HORNER (*Acadia*): If it is going to do it cheaper than I can do it, it is in my interest.

Mr. GORDON: You can get a proper rationalization of the transportation problem involved in moving grain, and it does not necessarily follow that the present network of railway lines is the most efficient system. I am quite prepared to say that it is not. This railway branch line actually grew up in the days of the horse and buggy. Let me suggest to you that it is not applicable to modern conditions, and the sooner everyone involved in this thing will recognize that this is a problem for all the interests concerned, and not only the railways, the better it will be for the western farmer.

Mr. HORNER (*Acadia*): Yes, but may I pursue this further, Mr. Chairman? While I do not want to absorb all the committee's time with branch line abandonment, it is very important in the prairies today, and in fact in all of Canada. For example, in my constituency last year, or the years before, there were nine miles of branch lines with four elevators, with roughly one storage in those four elevators of say over 300,000 bushels of grain. Now, that 300,000 bushels of grain could be moved by a once a month movement on the part of the railroad over those nine miles, or it could be moved by the farmers. There was the question of who was going to move it the cheapest. This is what it boils down to. I maintain that the municipal roads had been built over the years into that point, not down that railroad to the main line. The main roads were built into that point, not down to the main line. I maintain that the railroad could continue to run a train up there once a month and move those 300,000 bushels of grain cheaper than the farmers could, far cheaper.

Mr. GORDON: That does not necessarily mean that it is the best solution. It may be part of the solution, as you referred to it, but with a proper rationalization of the grain collection system for transport my opinion is we can do far better for the farmer than has been done on all the branch lines you have on the railway.

Mr. HORNER (*Acadia*): How?

Mr. GORDON: There are many ways of doing it, for instance modernize our thinking in regard to moving grain.

Mr. KORCHINSKI: How?

Mr. HORNER (*Acadia*): I was at an elevator opening the other day and we had a truck there.

Mr. GORDON: I will send you a copy of my Winnipeg speech three years ago.

Mr. HORNER (*Acadia*): In which you blamed everything on branch line abandonment and the Crowsnest pass rates.

Mr. GORDON: I beg your pardon, I did no such thing.

Mr. HORNER (*Acadia*): You said that if we do away with branch line abandonment, we can move grain on Crowsnest pass rates.

Mr. GORDON: No such thing. I made the finest, most statesman-like speech about moving grain that has ever been made in this country.

Mr. KORCHINSKI: Who wrote it?

Mr. GORDON: I will see you get a copy. It is one of the few speeches I wrote myself.

Mr. HORNER (*Acadia*): But I do think that the railroads—and I am going to leave this as my parting remark and my parting question, Mr. Chairman; you have been very patient with me in this regard—can continue to move grain on branch lines by once a month shipments, not by complete abandonment. They have the tracks laid down. In most cases the track is a light track, and if you disagree with me please say so. The track is laid down already and the grain can be moved from elevators which have a capital build-up of anywhere in the neighbourhood of \$100,000, \$500,000, \$600,000 or even a million dollars in the grain company elevator build-up. If the railways maintain the branch line and once a month shipments, they also maintain the economic community point, the elevator build-up, the capitalization of elevator build-up, and they move the grain as cheaply as or cheaper than the farmers can in custom trucks or their own trucks.

Mr. COOPER: My question has very nearly been answered. We have all got a list of proposed branch abandonments—who decides this and how is it decided? Is it decided by somebody with a lot of figures in front of him who says, "This line does not pay, we will take this out"?

Mr. GORDON: The applications for abandonment are made by the railway to the board of transport commissioners. The board of transport commissioners then sit in judgment on the application, and all the interested parties in connection with any abandonment are notified by the board of transport commissioners, and they have an opportunity of making the case before the board. That is the way it is handled.

Mr. COOPER: On one short branch line in my constituency—and there are nine lines proposed—over a distance of about 35 or 40 miles, they haul the grain out to the main line. Now, is it fair that that branch line is charged with the grain all the way into the city yards when it is trained up at a small town on the main line?

Mr. GORDON: These are the sort of representations that would be considered by the Board of Transport Commissioners when they are weighing the application.

Mr. COOPER: It has been said that there are some elevator companies which are going to leave their elevators there and take in grain. They are not going to haul that grain to a delivery point free of charge. Is that not going to interfere with the Crowsnest pass rates, and we have to pay extra from that elevator where you have your tracks rolled out to the main line?

Mr. GORDON: As I said before, this whole question of handling grain has to be examined as a global problem, and not only the part of it that affects the

railway. I have told Mr. Horner this and I repeat that the only way to get this problem solved, and the way that is for the best interest of the farmer, is to see that all the interested parties play a part in this.

I am going to suggest to you, and I think you will agree, that all elevators are not in the right places. Some are too small, Some are not operated efficiently. I know I will get into trouble in western Canada as soon as I say this, but I am perfectly certain that it is so. I am certain that in a rationalization program where all the parties do the job, you can have a better system than the one which is operating today. If you have elevators which are operated more efficiently, and if they are better located, this would be the case. You have to get all the facets of the problem considered and the best way to approach it is to have a co-ordinated program in which all the parties co-operate for their best interest. It is quite wrong and shortsighted to concentrate attention solely on the branch line problem. It is a much bigger problem than that.

Mr. COOPER: Will there be a committee set up, before branch line abandonment takes place, to study all these matters?

Mr. GORDON: I cannot assure you of that. I understood the Minister of Transport to say before the house on May 12 as follows:

That it is expedient to introduce a measure to authorize the implementation of certain recommendations of the Royal Commission on Transportation with respect to the rationalization of branch lines of railways and passenger train services and the fixing of freight rates under and consistent with a national transportation policy suited to modern transportation conditions.

He outlined in detail the government policy in that respect. I am not making government policy, believe it or not.

Mr. COOPER: I suppose that this committee would be set up as one other railway medium. I wondered if this would be the way it would be handled?

Mr. GORDON: The resolution says:

That it is expedient to introduce a measure to authorize the implementation of certain recommendations of the royal commission on transportation with respect to the rationalization of branch lines of railways and passenger train services and the fixing of freight rates under and consistent with a national transportation policy suited to modern transportation conditions.

I suggest that you read this resolution because it goes on in detail and says what is intended to be done. I can only say that I hope this comes to pass. I do not know.

Mr. COOPER: Let me tell you that non railway abandonment in western Canada, in Saskatchewan, Alberta and Manitoba is very, very essential to the way or mode of life in our agricultural industry.

Mr. KORCHINSKI: Mr. Gordon, I wonder if you could tell us whether the recapitalization which you propose is going to have any effect whatsoever on rail line abandonment?

Mr. GORDON: No, I would think not. I do not think it has any bearing on the subject at all.

Mr. KORCHINSKI: There would be no structure there which might affect the amount of interest which might be payable, and so on?

Mr. GORDON: No, because I am pinning our proposals, as I have said, on a basis to demonstrate the short fall in depreciation. That is the yardstick. If we are able to convince the government that that is the proper way to approach it, and that is the effect of it relevant to depreciation, it will depend on those figures and not on anything else.

Mr. KORCHINSKI: In considering whether or not you abandon a line, do you consider all the freight that is picked up by any other carrier in the area?

Mr. GORDON: Yes, the branch line is credited with every possible item of revenue that can be attributed to it.

Mr. KORCHINSKI: I am not talking about any freight which is carried by the railways, but by other carriers, not necessarily operated by the Canadian National, such as by trucks which are privately owned, and that sort of thing. I mean freight which they might carry out to a central point. Are you taking all this into account?

Mr. GORDON: No, we only take account of what goes over our railway.

Mr. KORCHINSKI: So there is a potential outside of freight which is carried by the Canadian National?

Mr. GORDON: I am afraid I do not follow you.

Mr. KORCHINSKI: If a private trucker goes in, and with his rates he is able to pick up freight from a certain locality and transport it, that is, freight which might normally be carried by Canadian National lines, by railway lines rather than by their trucking system, that freight is not taken into account in connection with your potential freight?

Mr. GORDON: No; on the contrary, we may be able to demonstrate that the other method of transportation can handle that freight more economically than the railways can handle it.

Mr. KORCHINSKI: There is another consideration to it then, because of your approach to the whole subject. You would be losing this freight because in some instances you may determine to abandon a line and then set up a rate at such a level that it is easier for another carrier to go in and take away the business, whereupon you can go and complain to the board of transport commissioners that you are losing freight, when it is just because some other carrier is taking it away.

Mr. GORDON: The freight rates with regard to grain are set by legislation, not by the railway.

Mr. KORCHINSKI: Grain is only one item. There are other items which you must take into account. I am thinking of what happened to your passenger carriage when you introduced another system.

Mr. GORDON: Without getting back to the question of the service, and discussing competition, if we were free in regard to making freight rates, as recommended by the royal commission on transportation, we could adjust our rates on the basis of competition. As it is now we have to demonstrate the method and prove that they will be on a compensatory basis. We are prohibited from quoting rates which will be below our actual variable costs, or whatever the term is.

Mr. KORCHINSKI: It seems rather odd that some private carrier can operate when the Canadian National cannot.

Mr. GORDON: I do not know what case you have in mind.

Mr. KORCHINSKI: There are many other carriers besides the Canadian National.

Mr. GORDON: Yes, and if those other carriers can do it on a better basis than we can, my attitude is that they should do so. The shipper is entitled to get the best kind of transportation at the cheapest price he can get it. That is what the MacPherson commission was all about. Competition will set the rate.

Mr. KORCHINSKI: If the competitor of the Canadian National can carry it, why cannot the Canadian National, and at the same time also maintain a line in a particular area?

Mr. GORDON: I would have to analyse the rate quoted by the competitor to find out if he is using good business judgment in it. He may be going broke. I do not know.

Mr. KORCHINSKI: I shall leave that point. Now, when you consider abandonment of a line, do you sell that line? What steps do you take? Do you leave the line in for a while, or just sell it, or what?

Mr. GORDON: It would depend on circumstances again. Normally if we have reached an agreement and receive permission to abandon a line, we would abandon it, and tear up the tracks.

Mr. KORCHINSKI: As soon as you have received permission to abandon a particular line?

Mr. GORDON: Yes.

Mr. KORCHINSKI: What happens to the right of way?

Mr. GORDON: It depends on circumstances. If it is available for sale, we may turn it over to some province for a road, or to some municipality when it is no longer needed for railway purposes.

Mr. KORCHINSKI: Have you considered leasing a particular line without disposing of the property, or taking away the rails, or tearing up the track? Would you consider either selling or leasing it to an interested group of people?

Mr. GORDON: Yes.

Mr. KORCHINSKI: In order that they might maintain it?

Mr. GORDON: Yes, we would consider any deal.

Mr. KORCHINSKI: But you have never had occasion to?

Mr. GORDON: Just a minute. You are talking about an abandoned line now?

Mr. KORCHINSKI: A line you may have abandoned, yes.

Mr. GORDON: You are talking about leasing it to a railway?

Mr. KORCHINSKI: No.

Mr. GORDON: If we have a line, and there are tracks, ties, and ballast on it, and that line is abandoned, we will lease it to anybody who is interested in making an effort to take it over on any basis he likes.

Mr. KORCHINSKI: Would you consider the freight which is hauled? I think that is the point made by Mr. Horner. I do not know whether I was exactly clear on it or not. When for example one thousand pounds of freight originates at Timbuktu on a branch line is the total amount of revenue derived from the carrying of that thousand pounds of freight credited to that particular branch line or is it credited with only a portion? If that freight was hauled one thousand miles would the branch line, which was only 100 miles in length, be credited with one tenth of the revenue?

Mr. GORDON: Any traffic that is attributable to the branch line is credited to it.

Mr. KORCHINSKI: The total revenue would be credited to the branch line; is that right?

Mr. GORDON: If it can be shown that the traffic would not otherwise have existed it would then be credited to the branch line.

Mr. VAUGHAN: I think what you have in mind, sir, is the situation which exists when a branch line is perhaps 100 miles in length and the traffic originates at a ten mile point and would we credit that branch line with the entire traffic; is that right?

Mr. KORCHINSKI: Yes, only I used the figure of 100 miles but you might carry the freight over one thousand miles of line.

Mr. HORNER (*Acadia*): You could perhaps carry the freight two thousand miles, or 1,300 miles to Fort William.

Mr. GORDON: Mr. Toole will answer that particular question from an accounting point of view. I am not sure of the answer.

Mr. TOOLE: Any revenue derived from traffic which originates on a branch line and moves off that branch line is proportionately credited to that branch line. The same situation applies in reverse. The branch line gets a proportion of the revenue from traffic which moves off the main line on to the branch line.

Mr. HORNER (*Acadia*): That is the very point I was trying to establish earlier when Mr. Gordon assured me that the branch line received credit for the shipment. We are now hearing a different story. We are now being told that the branch line receives only a proportion of the credit.

Mr. GORDON: I said that a branch line received credit for traffic attributable to that branch line.

Mr. HORNER (*Acadia*): I do not remember the use of the word "attributable" but I will look it up when we receive our copy of the Minutes of Proceedings and Evidence.

Mr. GORDON: You have a pretty good *Hansard* staff in attendance here.

Mr. HORNER (*Acadia*): The point I am trying to make, and I am sure this is the same point referred to by the member for Mackenzie, is that in respect of a branch line 20 miles long from commencement to the main line, from which point the distance is 1,300 or 1,400 miles to Fort William, for example, it will only receive credit to the extent of 20 over 1,400; is that correct?

Mr. GORDON: No.

Mr. HORNER (*Acadia*): That is the situation which I am trying to clarify.

Mr. GORDON: This is the type of technical thing that is completely hopeless to attempt to discuss without having the benefit of proper experts in attendance. This involves a cost accounting matter and I do not profess to be an expert on cost accounting. All I can tell you is that the formula has been well worked out on many, many occasions by the board of transport, and that formula states that on the basis of reasonableness all traffic attributable to a branch line is credited to that branch line. I do not have the details in this regard. Do you know the proportion?

Mr. TOOLE: I do not know the formula.

Mr. GORDON: We will obtain the cost accounting formula and pass it on to you. There is a formula which has stood up to tests in this regard over the years.

Mr. HORNER (*Acadia*): You say you will give us information in respect of that formula and I am interested in knowing when we will receive that information. Can we have that information tomorrow?

Mr. GORDON: If I can get home and get some sleep, get up in time to have breakfast and make a telephone call I will try to get it for you tomorrow.

Mr. HORNER (*Acadia*): Can we have that information by tomorrow afternoon?

Mr. GORDON: We might get that information tonight if you want to come around to my hotel room about 12 o'clock.

Mr. HORNER (*Acadia*): I will be in bed at 12 o'clock.

The CHAIRMAN: Order. Let us proceed with our questions.

Mr. PRITTE: Mr. Chairman, on a point of order; now that we are involved in the discussion of branch lines and abandonments perhaps we should hear questions of other members in respect of this subject before proceeding to another subject.

Mr. HORNER (*Acadia*): This subject is dealt with under railway operating revenue and subsidies, referred to at page 3 and my question is certainly in order.

Mr. PRITTE: For heaven's sake, if the member will be quiet for one moment until I finish what I am saying he will realize what I am suggesting.

Mr. HORNER (*Acadia*): I am not going to be called out of order by someone who thinks he knows something about order.

Mr. PRITTE: We are now discussing a specific subject, Mr. Chairman, and I was only suggesting that we continue discussing this subject before moving to a consideration of another subject.

Mr. HORNER (*Acadia*): I am in agreement with you, Mr. Prittie.

The CHAIRMAN: At the beginning of our discussions, Mr. Prittie, I think they related to the financial report and operating revenues although we did get involved in discussions regarding specific cases. As the discussion continued I gained the impression that members of the committee were disposed to allowing our good friends from the west to finish their questions in respect of branch lines.

Mr. KORCHINSKI: We will discuss this subject completely sooner or later.

Mr. FISHER: Tomorrow there will be half a dozen more of them here.

The CHAIRMAN: Our discussion was perhaps in respect of specific lines but let us complete our questions in respect of these branch line abandonments. I think Mr. Korchinski has a few further questions to ask, and he will be followed by Mr. Pascoe.

Mr. KORCHINSKI: In view of the fact you apportion a certain amount of the revenue derived from the movement of freight to branch lines, do you not think the loss of that business to the branch line will represent a loss to the main lines following abandonment?

Mr. GORDON: All those factors are taken into account during the investigation which is made.

Mr. KORCHINSKI: I am suggesting that if another carrier decides to handle the freight normally carried by branch lines, following the abandonment of that branch line, to carry that freight over the 20 mile long branch line and an additional 25 miles to the destination the branch line will not be credited with this revenue at all and there will be an effect on your over-all operations; is that right?

Mr. GORDON: Yes, and that factor is taken into account when we apply for the abandonment of a branch line. Certainly when we abandon a line we know perfectly well that, to the extent there is revenue, the revenue is foregone. That is not the main point for consideration. Is the branch line showing a net return? That is the question which must be answered; perhaps the branch line does produce revenue, but that revenue is of little value unless it is net revenue.

Mr. KORCHINSKI: If a branch line is not showing a net revenue and you continue to lose the freight business because of the procedures you follow in respect of abandoning these lines you lose that freight in respect of your main lines and eventually your main lines will not show a net return either.

Mr. GORDON: The effects of an abandonment are fully covered in the analysis that is made in respect of the abandonment of the line. We take account of the full effect of the abandonment of a line as a result of the formula that has been set up.

Mr. KORCHINSKI: If the company contends that it is impossible to haul grain over branch lines under existing rates, surely the haulage of that grain over an additional 12 miles would not make much difference to the over-all operations, would it?

Mr. GORDON: I really must say that I am about at the end of my tether.

Mr. KORCHINSKI: Let us hear what you have to say.

Mr. GORDON: I suggest to you that you must give the railway officials credit for knowing something about their business. Surely you must accept my word when I say an analysis is made in respect of the net effect of the abandonment of any line, and complete account is taken of all the factors to which you have referred. Believe it or not, we are not stupid.

Mr. KORCHINSKI: There was no suggestion to that effect. I do not know why there should even be that interpretation placed on my remarks.

Mr. GORDON: If we were overlooking the factors to which you have made reference we would be stupid.

Mr. KORCHINSKI: Are we permitted to ask you questions at all?

Mr. GORDON: I am sorry if I have said something to offend you. Things are not too easy for me either so let us just smile at each other rather than getting a little hot under the collar.

Do we have one of those forms we fill out stating the particulars in respect of an application to abandon a branch line?

Mr. VAUGHAN: No.

Mr. GORDON: Let us obtain one of those forms for presentation tomorrow so that we can indicate the information that is required. I am perfectly willing to disclose the whole situation, and I am sure you will understand the kind of analysis that is made as a result of a reference to the form to which I have referred.

We prepare an analysis on that form which has survived many expeditions before the board of transport commissioners. I think such a form will indicate better than I could the kind of detail we go into in order to provide information to the board of transport. There is no condition or situation one could possibly think of that has not been taken into account in respect of this information provided to the board of transport commissioners. I am sorry if I was a little fed up.

Mr. KORCHINSKI: You did not offend me.

Mr. GORDON: I am tired, that is all.

Mr. KORCHINSKI: I have one further question to ask. You stated in one of the speeches you made in Winnipeg that there were several methods by which you could modernize. Could you indicate the methods you had in mind?

Mr. GORDON: I would much rather table that speech.

Mr. FISHER: I think the *Western Producer* printed practically the whole speech.

Mr. GORDON: I will produce the speech. It would be much easier for me to do that than repeat those suggestions.

Mr. KORCHINSKI: I was just wondering what other methods you had so we could compare these with the method we have for transporting grain.

Mr. GORDON: That is quite all right, Mr. Korchinski; I will arrange to have a copy of this. I do not suppose anyone thought to bring one with them.

Mr. VAUGHAN: We have it here.

Mr. GORDON: We will get a copy of the Winnipeg speech. I will get that and have it available for you tomorrow. I do not want to try to recollect isolated factors as it is all part of a co-ordinated program.

Mr. PASCOE: Mr. Chairman, I am not going to pursue the branch lines on which we already have had a good discussion. However, I have one question which, you might think, is a hypothetical one.

You refer here in your financial review to the above normal demands for rail services and handling the second highest volume of rail business, and I think this pretty well ties up with the movement of grain.

Did the railway acquire extra rolling stock to handle this grain and are the operations of the railway now geared to handling this large movement of wheat each year? In other words, if wheat movement went down a bit what would be the situation?

Mr. GORDON: If you will turn to page 31 you will see a breakdown of the main classifications of where an increase in tonnage took place. These are broad classifications and we can break them down in much more detail. But, if you would look at the bottom of page 31 you will find agricultural products increased by 2,488,688 tons. At the bottom you will find manufactured and miscellaneous went up 2,250,533 tons. You will find mine products went up 906,732 tons and forest products went up 239,054 tons. In agricultural products you would find probably the majority of that is grain. But, nevertheless, there were considerable increases in other forms of traffic as well. I said in my report here at page 15:

It was significant that this volume of business was handled at an unparalleled level of efficiency. For example, the 40.2 billion revenue ton miles carried in 1963 was surpassed only by the 41.9 billion carried in 1956; the 1963 traffic, however, was handled with 13,000 fewer pieces of freight equipment than required in 1956, mainly because of improved car utilization and distribution techniques.

Now, following through from that I am saying we are now organized on such a basis that we will take care of any volume of traffic that may be suddenly thrown to us and we are prepared to provide services. If it turns out to be traffic that is continuous, then we will make provision for it in due course by ordering further equipment. But, of course, we can take care of a short peak, and that is the way we are organized. We can do many many things today that we could not do before. We find much more flexibility, for instance, in our diesel operation and the various control techniques we have worked out for the distribution of our cars. We have handled about the biggest load in history with 13,000 fewer cars than the previous record.

Mr. PASCOE: So, if there was a reduction in the movement of wheat next year it would not affect the railway company in regard to reduction of services and operation?

Mr. GORDON: Did you say a reduction of wheat movement?

Mr. PASCOE: Yes, if there was a lower movement of wheat.

Mr. GORDON: If there was a lower movement of wheat certainly we would have more equipment available. Would we not?

Mr. PASCOE: Yes, but would you cut down on your personnel or anything like that?

Mr. GORDON: Of course, our personnel and employee staff is dependent upon the volume of traffic used. Our need for labour will fluctuate, and I mean by that all kinds will fluctuate in accordance with traffic.

Mr. HORNER (*Acadia*): I have one brief question in respect of railway operating revenues and subsidies in a follow-up on the branch line question.

It is a well established fact, Mr. Gordon, that you are now operating trucks to contribute to a feeder line system of the C.N.R. Am I right in that assumption?

Mr. GORDON: I am just conferring here a minute because the question of trucking is a very sensitive question on which I want to make a statement, and I am wondering whether or not I should make that statement now.

Mr. HORNER (*Acadia*): I am not interested in trucking at this point; I want to get on with the railways. But, I just want to establish the fact that the trucks are in a sense operating as a feeder system to the railways. I do not want to get into the trucking business tonight.

Mr. GORDON: Are you talking about our trucks or the farm trucks?

Mr. HORNER (*Acadia*): Yes, your trucks.

Mr. GORDON: There is a very difficult legal question involved in this and I am hesitating because I think I should make my position clear on it. It may seem to you that I am quibbling but I am not; it is an important question and sometime during this committee I have to make a statement on it.

Mr. HORNER (*Acadia*): I do not want to get into the trucking question tonight.

Mr. GORDON: But, if I answered your question yes or no it may well prejudice me.

Mr. HORNER (*Acadia*): I did not know the question was that good.

Mr. GORDON: Yes, it is very good and, if you would like me to, I will read the statement now.

Mr. HORNER (*Acadia*): No, I do not want to get into the trucking details tonight. The hour is getting late and you are tired. But, here is the point, and I am going to assume maybe a false assumption, that trucks do act as a feeder line to the railway. If that is so then will you agree with me in a sense that the branch lines also act as a feeder line to the railway?

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): All right. Here is the way it look to the citizen who is, shall we say, part shareholder of the C.N.R. He sees the C.N.R. advancing in the trucking industry and abandoning the branch lines and he just cannot make those two things jibe because in a sense they are enlarging one feeder line and doing away with another.

Mr. GORDON: But, surely that is simple enough; it becomes a question of efficiency and which is the most efficient system.

Mr. HORNER (*Acadia*): Yes, this is the very point. We are right back to where I started.

Mr. GORDON: God forbid.

Mr. HORNER (*Acadia*): This may appear funny but it is a serious matter to the farmers who deliver grain to these branch lines. It costs something of the order of 9 cents a bushel to haul grain 25 miles or better. Maybe I am wrong in this assumption but, in my opinion, this figure is approximately correct, of course depending upon the size of the truck and the condition of the roads, which would vary this amount. But, here is my point: you have one line of feeder lines advancing, the other decreasing, and all the ordinary citizen is hearing is maintain your present feeder lines and enlarge your feeder lines as much as possible in order to make the Canadian National a paying proposition. This is what my constituents are hearing in my constituency.

Mr. GORDON: You see, it is part of my thesis. If you had read my Winnipeg speech—

Mr. HORNER (*Acadia*): I did read it.

Mr. GORDON: Then you did not read it right. It is part of my thesis that in the effort to solve this big problem of what is the most efficient way to move our grain in the national interest I say that all parties interested must be considered and there must be a co-ordinated policy in regard to it. Now, it may well be there will be individual circumstances where a properly rationalized system of carrying grain would prejudice an individual farmer. It may well be that an individual farmer may have to carry his grain farther than he does now, and the question of compensation arises. I have been perfectly willing to say that in respect of this and other matters there may have to be worked out some forms of compensation which might apply to the individual farmer, which might apply to the elevator location or to the owner of the elevator; it might apply to any number of things. This is part of what I call the co-ordinated plan, and it is not something that applies to one element in the grain transportation system.

Mr. HORNER: One further question. I am not asking, and no farmer is asking, for a daily or regular service to be maintained on the branch line. All he is asking is that he be accommodated for the shipments of grain from that point and that those shipments be charged as revenue for that point. Time and again he finds that the shipments that are instigated at that point are charged as revenue to the main line, and time and again...

Mr. GORDON: Where did you find this?

Mr. HORNER (*Acadia*): In practically any branch line or agency abandonment.

Mr. GORDON: This is what he believes?

Mr. HORNER (*Acadia*): This is more or less what is accepted.

Mr. GORDON: Does he know?

Mr. HORNER (*Acadia*): No, but he accepts the fact or the fallacy, be it what you determine it, that the board of transport commissioners assume that the grain, if point A is closed down, will have to be delivered to point B at the branch line; but in many cases point B is half way between Canadian National Railways and Canadian Pacific, and Canadian National does not get all point A grain.

Mr. GORDON: And there is a question of duplication of lines involved too.

Mr. HORNER (*Acadia*): Maybe.

Mr. GORDON: Let me try to get the formula to which you are referring. The cost accounting might help.

Mr. HORNER (*Acadia*): I will hold my questions until the formula is presented, which I hope will be tomorrow, and I hope that if any question arises out of the formula I may be permitted to ask it, though I do not think any question will arise.

The CHAIRMAN: I know he will not be long.

Mr. HOWE (*Wellington-Huron*): To get away from branch line abandonment in western Canada, from time to time we have had a problem in branch line reduction in western Ontario. We sometimes wonder in that area why there is such a duplication of services when the branch lines are still operating the full freight service but the L.C.L.'s and the express are going by truck. If there is a reduction in traffic or a reduction in the services, are all the revenues considered in those situations?

Mr. GORDON: This is really the same question: What goes into an analysis of a line when it is abandoned? I repeat what I said before, that all the revenue attributable to that line is taken into account. There is also the question of

efficiency. It may very well be in your particular case that it makes sense to continue a freight operation on the line but that it does not make sense to continue a passenger service or express if we can do that by other means more cheaply and more efficiently. It does not necessarily follow that because there is a line it makes sense to run a passenger train if we can do it in other ways more efficiently.

Mr. HOWE (*Wellington-Huron*): You are doing it with rail liners these days.

Mr. GORDON: With rail liners and with buses. We are moving types of express traffic by truck and so forth. We analyse all that sort of thing to see what is the best way of doing it in order to meet the requirements of service as well as considering the cost.

Mr. MACEWAN: Following along shortly what Mr. Pascoe was asking, Mr. Chairman, I believe Mr. Gordon stated that there was adequate equipment to handle the traffic as is, and that if in the future there is increased traffic then, of course, the equipment will be purchased.

In this regard are you able, Mr. Gordon, to look ahead any farther than, say, a year in purchasing equipment or are you limited to that having regard to the traffic on the line?

Mr. GORDON: No, we try to look ahead as far as reasonable, all things considered. You will see in regard to our budget when you come to it—by tomorrow morning before twelve, I hope—which is usually the final item dealt with by this committee, that we will have various equipment requests. That follows on a market analysis of what we see in the way of future traffic. That depends on what our analysis has shown. We have a department that makes a very detailed analysis of our customers requirements or those whom we may foresee may be our customers, and there is a great deal of consideration of the equipment we might be buying. Again, we are not perfect; we can make a forecast and sometimes it does not work out. However, we do make a very detailed market analysis with our clients and any people we might think might be our clients.

Mr. MACEWAN: You would not put any specific time on that?

Mr. GORDON: No. If we could see it making any sense, we would look three, four, five or even ten years ahead, if we could be sure of any particular development.

Mr. MACEWAN: You have heard suggestions, no doubt, during your years as head of Canadian National Railways that perhaps a five year plan or something of that order be brought forward because it has been suggested that at times railway equipment is ordered in a hurry and must be delivered in a hurry to the railways, and that by such a plan the equipment would be enabled to be available when necessary.

Mr. GORDON: Yes, but the point there is that there will always arise unexpected things. One can never foresee everything. Of course, so far as equipment manufacturers are concerned, they would like to have long term orders but any discussions we have had with them do not show us that there is any advantage in that respect. If they were ready to work with us on a plan whereby they would cut their price in terms of future delivery we might talk to them; but we have never been able to get them to see it in that way.

Mr. MACEWAN: Then, finally, you specially referred to research and to specialized equipment which you are going into more and more every year. Does this limit the time period even more than, possibly, it was limited in the past?

Mr. GORDON: Yes, and of course there are new technologies being developed every day. There are methods being followed by industry in regard to trans-

portation; it is changing all the time. The types of packaging and the methods of transportation are changing all the time, and we keep closely in touch with it through our customer research service, which I have mentioned here.

The CHAIRMAN: Gentlemen, may we pass the item of financial review subject to finishing branch lines tomorrow on development?

Mr. FISHER: I have one or maybe two questions with regard to the east-west bridge subsidy.

Mr. Gordon, this has increased by \$1.1 million in this year which is on record here. The total pot actually has not increased to the bridge subsidy. It is just, I take it, that your share of the \$7 million to \$7.5 million has gone up?

Mr. GORDON: It is related entirely to the traffic. It is our portion based on the traffic.

Mr. FISHER: What I am concerned about is that over this past winter on several occasions the rates have gone up and the point has been made that it has been necessary, because of increased traffic, to spread the bridge subsidy more thinly. Therefore, the effective rate that they have to pay has gone up for the shippers in our area on several occasions. Nothing can be done about this, and of course what all these shippers are worried about now is the end of the bridge subsidy. I want to be perfectly clear that the increase that is denoted here does not represent a larger bridge subsidy in total.

Mr. GORDON: No, it does not; and I am not familiar at all with the suggestion that the effective rates have gone up. I would have to check the records on that.

Mr. FISHER: I think your Mr. Smith, who is your Ottawa representative, would confirm that I have raised this a couple of times in the House of Commons. It is a fact that certain shippers in the lakehead area and in northwestern Ontario have been concerned with this and it has been held off. I think the last postponement after intervention ends this month, and there is considerable concern about it.

Mr. GORDON: Are these shipments to which you refer definitely in connection with the east-west bridge subsidies?

Mr. FISHER: Yes.

Mr. GORDON: Are they included in that pool?

Mr. FISHER: Yes.

Mr. GORDON: I will have to look into my file. Do you know about it, Mr. Smith?

Mr. WALTER SMITH (*Canadian National Railways*): I am not readily familiar with the details, but we have the correspondence on this.

Mr. GORDON: I will have to look at it; I am not familiar with this.

The CHAIRMAN: May I have a motion to pass the financial review? Item approved.

The CHAIRMAN: We will now go ahead with development. Do you wish to proceed this evening, or do you wish the committee to adjourn now?

Mr. HOWE (*Wellington-Huron*): I am sure some of the members of the committee who are not here would like to ask some questions, and therefore I think we should adjourn.

Mr. FISHER: I wanted to ask one question connected with research.

Is there someone in your company who devises this apparatus that has been put on the locomotives which requires the locomotives engineer to touch something every 20 seconds otherwise an alarm goes off?

Mr. GORDON: Mr. Demcoe, do you know about this?

Mr. DEMCOE: It is a gadget called an alerter that is produced by the Vapor company in the United States.

Mr. FISHER: Did your research people do any work with it at all to determine what effect this would have on the general well-being of your employees?

Mr. GORDON: What is its purpose?

Mr. DEMCOE: We have not done any research work in our research laboratory, but we have installed it on our locomotives in order to get experience and see what reaction we will get.

Mr. FISHER: It is just on an experimental basis, not in service?

Mr. GORDON: What is the purpose of it?

Mr. DEMCOE: To replace the deadman control eventually. Our enginemen find considerable difficulty holding their foot on the deadman's control, and the idea of the alerter is to replace it, if possible.

Mr. FISHER: But at the present time you have no intention of putting it into full service?

Mr. DEMCOE: No, not until it is fully tested.

Mr. GORDON: The intention is to make it a better means in connection with a man in relation to the deadman's control.

Mr. DEMCOE: That is right.

Mr. GORDON: This is not an additional gadget.

Mr. FISHER: No, but the people I have talked to, who are working with it, are no more enamoured of it than the deadman's control.

Mr. GORDON: It is the same old story.

Mr. FISHER: I would suggest that it is quite a hardship every 20 seconds to make a movement over say what could be a five or six hour period otherwise an alarm would go off in your ear.

Mr. GORDON: I know what you mean. Every 20 seconds I am asked a question here. I will have a look at this. You can rest assured it will not go in until it is thoroughly tested and until we are satisfied it does not impose a greater burden on the people.

Mr. LACHANCE: Would it be possible to get the formula supplied tomorrow to all the members of the committee?

Mr. GORDON: I am not sure. I am not sure if I can get it between today and tomorrow morning.

The CHAIRMAN: We are not meeting tomorrow morning. We have a caucus.

Mr. GORDON: What is a caucus?

The CHAIRMAN: It is something like this. Everybody disagrees. The meeting is adjourned.

The committee adjourned.

WEDNESDAY, June 17, 1964.

(Text)

The CHAIRMAN: Order. Last night when we adjourned we were dealing with the item headed "Development" appearing on page 4.

Mr. HORNER (*Acadia*): Mr. Chairman, I wonder whether Mr. Gordon was able to bring with him today an application or form which is used to appraise branch lines in determining whether or not they are paying units?

Mr. DONALD GORDON (*President of the Canadian National Railways*): Yes.

First of all, Mr. Chairman, I should like to take advantage of the opening of this meeting to say that I have now had a number of copies made of my speech in Winnipeg on September 26, 1962, in which I outlined a sort of viewpoint that the Canadian National held in respect of this whole grain moving situation. I have enough copies now to make them available to each member of the committee if you would like to have them.

I should like to suggest, if you are agreeable, that the committee might consider it suitable to attach this as an appendix to the proceedings of today as a matter of record because while I said rather facetiously that this was entirely my own speech I want to say now along with that, that while it is my speech, nevertheless it was very carefully edited and gone over by the C.N.R. officials who are thoroughly familiar with the practices and methods of handling the grain in the west, so that it does represent the Canadian National policy outlook and would, I think, be useful for this purpose.

The CHAIRMAN: Is it the wish of the committee that this document be appended to the minutes and evidence?

Some hon. MEMBERS: Agreed.

Mr. GORDON: Secondly, I have been able to get hold of a form which covers what I had in mind. Before mentioning it I should just like to make this brief comment.

It should be remembered when we are discussing this matter of branch line abandonments that the question of branch line deficits was only one of a number of questions, of course, that were dealt with by the Royal Commission on Transportation in considering all aspects of what has been referred to as a railway problem.

There was the royal commission itself, of course, which had a staff of very high quality experts and, in addition to that, the various people that appeared before the commission, not only the railway people themselves, but people from the provinces and, indeed, any one interested at all, when we prepared and submitted a brief to the commission, they also had their own experts so that the evidence which was produced before the commission is of very high quality indeed, and it is on the basis of that evidence therein produced that the commission made its recommendations. In our case the costing procedures had been defined and improved to a very great degree and the railways were successful in having the commission accept our costing procedures in regard to all of our items under discussion, not only branch lines but questions of grain payments, various subsidies, passenger deficits and so forth. So there is a very thorough analysis made by the commission in the course of its hearings, which went on as you will remember not only week after week, month after month but finally year after year. There were about two years of exhaustive inquiry by the commission which took place during hearings all across Canada.

With that brief statement I should like to say that I have the form that I had in mind when we broke off last night. In looking it over I can confirm quite definitely what I told you in regard to the manner in which we approach this question of submitting to the Board of Transport the particulars that they require when we file applications and, therefore, the branch line is credited in full with all revenues which originate or arise out of traffic originating or terminating on the branch line under the headings of "freight-carload, freight-L.C.L.; express; passenger; communication and miscellaneous". The total amount of revenue accruing in respect of transportation in Canada covering the originating or terminating traffic is credited to the branch line.

Then against cost against the system, or variable costs as we call them, we charge the total cost of the branch line itself and the variable cost of handling the traffic on the rest of the journey which, of course, would be on the main line.

This form I have before me is a summary in accordance with an agreement that we reached with the Board of Transport regarding the manner in which these various statistical figures would be broken down in making the applications to which I referred. This document runs into quite a number of pages. It covers, generally speaking, the historical background, and the general conditions under which the railway line was built are summarized for the benefit of the Board of Transport itself. Then, under another heading, we deal with the present condition of the railway line; what is its main condition, its physical condition and what have we been doing over the years in the manner of upkeep and so forth, and we bring that into a summary of the conditions of the line today. Then we deal under a heading with train service giving the actual trains that are operating on the branch line, explaining in a summary again what services seem to be justified.

We again deal under a heading with highway service where we point out what alternative service is available in the particular area assuming that the line were abandoned.

We then give a detailed analysis of the number of inbound and outbound carload traffic, and so forth, and a general analysis of traffic of all kinds which, as I said before, is summarized in that paragraph.

We have another paragraph in which we deal with the effect on railroad employees; what would happen in regard to the rearrangement affecting the actual employees that have been employed on the branch line operation.

Then we deal under another heading with impending capital expenditures, and we indicate under this heading what would be necessary in order to continue the line.

Then we have another summary under the heading of "operating results," covering the operating results for the line for the year in which we are making the application. That is drawn down to a demonstration, therefore, that would be, with the abandonment of the line, a justification arising out of the annual long term betterment so far as the railway is concerned.

When this information is placed before the board and an application is going to be heard, and you will remember what I said yesterday, that there is an arrangement right now by which applications are held up temporarily until the MacPherson report legislation is dealt with, and I am referring only to the Western Canada applications because there are other branch line abandonments, of course, elsewhere that are proceeding. A copy of all this information is sent to all the interested parties which the board feels have an interest in regard to the line and any person may, if he wishes, ask for the information or appear before the board at a hearing that may be held in respect of that particular abandonment.

I think that is about all I need to say in that regard unless there is any further particular you would like me to cover.

Mr. HORNER (*Acadia*): Mr. Gordon, would you have any objections to making this document you have been referring to an appendix to the committee proceedings?

Mr. GORDON: I have no objection except it is an awkward sort of thing.

Mr. HORNER (*Acadia*): It would give us something to examine.

Mr. GORDON: This is, as I say, a hypothetical case since I would not want to put on the record individual cases because at this time these are not yet being heard and I do not want to take an actual case. To the extent that the reporters can take care of this document I will be glad to put it on the table and let them handle it. I do not know how they can reproduce this sort of document.

Mr. KORCHINSKI: I think they can reproduce that sort of document and I think it would be very helpful information if and when committees are set up throughout the country, because individuals will be able to understand what you have said.

Mr. GORDON: I have no objection and would be very happy, if it would be helpful to you, to let you have this copy so that you can make copies of it. You must remember this is a hypothetical case and the first line reads:

The line from Fictitious to Convention, Saskatchewan,—

Mr. KORCHINSKI: Those are probably the only two branch lines that will exist after you are through.

The CHAIRMAN: Is it the wish of the committee to insert this fictitious document in the minutes and evidence?

Some hon. MEMBERS: Agreed.

Mr. GORDON: I am anxious to get the document back, by the way, and would the reporters see that we get it back? That is the only copy we have right now.

Mr. MACDONALD: Mr. Gordon, a passing reference was made yesterday to the techniques of transporting solids by way of solutions through pipe lines. Have your research people been doing any research along this particular line?

Mr. GORDON: Yes. We have been carrying out a good deal of examination in this regard. I think I have a note here in my papers in this respect. I will just see whether I can find it or not.

Mr. PRITTIE: Mr. Chairman, while Mr. Gordon is looking for that note could we perhaps deal at the moment with the one subject under the heading "Development" on pages 4, 5 and 6?

The CHAIRMAN: We are dealing with research first.

Mr. PRITTIE: I see, we are still dealing with research?

Mr. GORDON: We have been watching this development with great interest and we have established that between one eighth and one quarter of the company's annual revenue is derived from transporting products which may be handled by pipe lines in the future. This is our appraisal of what is involved. We have then, therefore, been doing a lot of research work in respect of the technology of solids in pipe lines. We intend, and I speak subject to all the qualifications that go with making a forecast about the future, to enter the field of pipe line solids when the conditions warrant and to compete for traffic in areas that can be economically developed by means of this new mode of transportation and to get approved the technical developments to undertake such research as we require. We have been particularly interested at the moment

in concentrating our attention on handling commodities such as ores or various types of ores, coal and wood chips in pipe lines and the technology of it is now fairly well advanced. We are keeping in close touch with such institutions as the research council of Alberta, the national research council, the pulp and paper institute, the Colorado school of mines, and a laboratory in France also that is doing some work in this field and we are in close contact with them as well.

We do not see a very early situation in that respect. There is another wide field of research that needs to be looked into very definitely and that is the legal and jurisdictional aspects of the operation of pipe lines, which raises questions which may require new policies and legislation by the parliament or provinces of Canada.

Mr. MACDONALD: That touches upon my second question, Mr. Gordon. Are your corporate powers not sufficient now to operate a pipe line either or this kind or of another kind?

Mr. GORDON: We are in doubt about it. It may well be that special legislation will be required.

That, as I say, is part of the research that we are carrying out.

*(Translation)*

Mr. BEAULÉ: In the case of research on buildings, I do not know whether the English and the French reports are alike?

The CHAIRMAN: Real estate comes later.

Mr. BEAULÉ: I beg your pardon?

The CHAIRMAN: We shall call Real Estate later, page 7.

Mr. BEAULÉ: Good.

*(Text)*

The CHAIRMAN: Have we concluded our discussion in respect of the paragraph headed "Research"?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: We will now consider the paragraph headed "Branch Lines" under the general section headed "Development".

*(Translation)*

Mr. BEAULÉ: Mr. Chairman, I will now . . .

The CHAIRMAN: Yes, Mr. Beaulé.

Mr. BEAULÉ: I would like to ask Mr. Gordon to tell us why the project of building a railroad line from Gaspé to Ste Anne des Monts was abandoned?

*(Text)*

Mr. GORDON: That is a matter of government policy. I think only the minister can appropriately answer that question.

Mr. PRITIE: I should like to ask a question in respect of real estate.

The CHAIRMAN: We are now dealing with the branch lines paragraph. Have we concluded our consideration of that subject?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: We will now move to a consideration of the real estate paragraph.

Mr. PRITIE: I should like to ask one or two questions about things of a local interest to the Vancouver area.

Mr. Gordon, last year you were asked questions about the Canadian National steamship dock at Vancouver and you answered at the time that you could find a use for it in respect of the railways. Has there been any further development in that regard?

Mr. GORDON: There has been nothing new since I last spoke to this committee which is only a matter of six months. There is no new development as far as I know. I am going to be in Vancouver next week and that is one of the subjects I intend to look into.

Mr. PRITTE: I have one further question which has to do with the one steamship operating on the west coast. I do not see any other heading under which I should ask this question so I will ask it now.

Mr. Gordon, I asked you last year whether the company contemplated getting an additional steamer for the coastal trade which was proving profitable now. Mr. Gordon, at that time you said the trade was picking up and paying but you did not think it was worth while to purchase any additional steamers. I am just expressing an opinion now, but it seems to me this is a very worthwhile trade and if it were extended in the future, particularly as the population of the coast cities in Canada and the United States, and especially in California, grows the company will lose business here if it does not make some move in that direction. I offer the further view that this trade requires some type of vessel which could operate on the Alaskan trade in the summer time and the Hawaiian trade in the winter time. I think that might prove to be a more economical operation.

Mr. GORDON: Thank you. I will keep your opinion in mind. This involves a matter of business judgment and this again will be considered. That matter will be under discussion in the near future.

*(Translation)*

Mr. BEAULÉ: Mr. Chairman, would Mr. Gordon tell us whether he is giving any consideration to the possibility of building an up-to-date plant for servicing engines and freight cars at Sainte Foy in order to combine the Charny and Limoilou plants because the repair plants which are presently in Quebec City and Charny are obsolete with regard to diesel locomotives.

*(Text)*

Mr. GORDON: Perhaps Mr. Demcoe could answer that question. Would you care to take that one?

Mr. J. W. DEMCOE (*Vice President, Transportation and Maintenance, Canadian National Railways*): No, up to the present time, we have not given any consideration to changing the location of the shops in the Quebec-Levis area.

*(Translation)*

Mr. BEAULÉ: Do you envisage the possibility of building a station at Sainte Foy in view of the new service between Quebec and Montreal on the South Shore?

*(Text)*

Mr. GORDON: Well, we have a station there.

Mr. DEMCOE: Yes, a brand new one.

Mr. GORDON: We have a brand new one. Have you not been there lately?

*(Translation)*

M. BEAULÉ: Does the new train stop at Sainte Foy?

(Text)

Mr. GORDON: Yes, it does indeed. The running time for the new train is 2 hours and 45 minutes between Montreal proper and Ste. Foy. We want Ste. Foy to be regarded as the main stopping place because of the time factor. The train does go on through to the Palais Royal station but it takes half an hour to get there. In the inaugural run which we made last week we had a full load, mostly made up of members of the Chambre de Commerce and I was interested to learn that 80 per cent or more of those who were on that train came to Ste. Foy by preference, parked their cars there and boarded the train there. So, I am hoping that Ste. Foy will be the terminal for most people.

(Translation)

Mr. BEAULÉ: Do you foresee the possibility of building a union station so that the Palais station at Quebec could be removed and this would necessarily eliminate the movement of trains in and out...

(Text)

Mr. GORDON: I am sorry but I missed your first few words. Would you say it again.

(Translation)

Mr. BEAULÉ: Do you foresee the possibility of having a station, a pool station for the Canadian Pacific and the Canadian National, for trains going in and out of Quebec, which would eliminate train traffic through the city where we have the problem of level crossings?

(Text)

Mr. GORDON: Well, that is a question that has been hanging fire for many years, and it is a very difficult and costly thing to contemplate. As far as I know at the moment, the answer to your question is no, we do not have it actively in mind. Of course, it would affect the C.P.R. a great deal more than it would us.

Mr. HORNER (*Acadia*): Mr. Gordon, in respect of real estate I notice that a 26-storey building is going to be built in Edmonton and, I take it from this paragraph, it is going to be built by private interests.

Mr. GORDON: Oh yes. This is typical of the kind of thing we are doing. The way we are trying to handle it is that at points where we have available property, which may take the form of what we call aerial rights over our tracks, we try to encourage a local promoter to rent the space on a ground rent basis from us, and they provide the capital for the erection of the building. In most cases we give them encouragement in that respect because we, in turn, enter into a lease with them in regard to our own requirements. So, very often he gets enough from us in the first instance in the way of rent to justify his basic risk. But we do not put any money into it.

Mr. HORNER (*Acadia*): It is being built on railroad property though.

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): Of course, this is a policy decision, I suppose, which has been taken, namely that private interests should build it; but, it seems to be the wrong decision. I think that you are going to have to substantiate the construction of the building by renting it. Why would it not be better for the Canadian National to build it themselves on their own property? You are going to be the major renters, I take it.

Mr. GORDON: May I ask you how recently you have been in Montreal?

Mr. HORNER (*Acadia*): Oh, about a year.

Mr. GORDON: Do you remember the Place Ville Marie building?

Mr. HORNER (*Acadia*): No.

Mr. GORDON: The huge building? The Royal Bank building?

Mr. HORNER (*Acadia*): Yes.

Mr. GORDON: That building was estimated to cost about \$80 million. When it was finally finished I understand that Mr. Zeckendorf of Webb and Knapp Company Limited found it cost him about \$120 million. You may have seen from recent information in the newspaper that the Zeckendorf interests are in deep trouble in regard to their own financial position. Now, when we make an agreement with a promoter he takes the capital risk and the rental which we pay is a market rental and a market rental only. We do not encourage the promoter by any form of subsidy in respect of rent; we pay the going market price for the rent and it is on that basis. We are able sometimes to encourage a promoter to take the entrepreneur risk that goes with this development. We do not believe the Canadian National should enter the real estate business.

Mr. HORNER (*Acadia*): Well, you are into it in a big way now.

Mr. GORDON: We have been in the past but largely in connection, I think, with our own buildings. We have not erected buildings, generally speaking, which have been over built above and beyond our own requirements.

Mr. HORNER (*Acadia*): What part of the 26-storey building to be built in Edmonton will be rented by the C.N.R.? What would be the percentage?

Mr. GORDON: Have you the particulars there, Mr. Demcoe?

Mr. DEMCOE: No, I have not.

Mr. GORDON: We have the square footage but I am unable to relate that to the total. The Canadian National is interested in leasing approximately 70,000 square feet of space for regional and area headquarters and 16,000 square feet of space for the necessary railway facilities. I am trying to find out what it is in terms of the total building. It ought to be here but it is not.

Mr. HORNER (*Acadia*): Could you give the committee some idea in this connection?

Mr. GORDON: I should have this information here. Of course, I can tell you there are many other things in the building. The first three upper floors of the building will be used as a parkade. It will have a ground floor shopping arcade which will be developed along its full wall and will contain stores, banks and other facilities. It will be of interest to you to know on the basis of our giving up space which we now rent in the city and consolidating it in this area in the new buildings, we figure our net advantage in rent is about \$26,800 a year, which we are better off by consolidating it in this building.

Mr. HORNER (*Acadia*): What are you prepared to pay, about \$4 a square foot for the renting of this new building? I have just taken that figure off the top of my head.

Mr. GORDON: I have not that figure here but I can easily get it for you.

Mr. BROWN: Top secret.

Mr. GORDON: I will have to get that information for you. I do not know why we would not have it because it is such an obvious thing. I would have to inquire about that. I have forgotten the percentage of the building.

Mr. HORNER (*Acadia*): I would suspect—and correct me if I am wrong—that you would be renting about three quarters of it.

Mr. GORDON: Oh, no, I would not think so. But, even if we were it would still be all right. My recollection is that I would be surprised if we went beyond 18 to 20 per cent. I would be surprised if it is more than that. But, as I say, I can get that figure.

Mr. HORNER (*Acadia*): Why would you specify then that it would have to be a 26-storey building?

Mr. GORDON: We did not specify it; that is up to the private enterpriser who is building it. It is not our specification.

Mr. HORNER (*Acadia*): You are giving him the land.

Mr. GORDON: No, we are renting it to him.

Mr. PRITTIE: What is the extent of the lease? Would it not be a long term lease?

Mr. GORDON: I have not the exact number of years.

Mr. HORNER (*Acadia*): Say, it is a 20 or 40 year lease. At the end of the term of that lease what happens to the building if it is still on Canadian National land?

Mr. GORDON: There would be a provision for renegotiation of rent subject to an arbitration clause in case of disagreement.

Mr. PRITTIE: The normal practice at the end of a long lease period—and I imagine this is a long term lease—is that it goes to the owner of the land.

Mr. GORDON: No. That is an emphyteutic lease to which you are referring and that is usually a 99 year lease, at the end of which time the building goes back to the owner of the land. And, in the meantime, the user of the property has all the rights of ownership. It is not necessarily the case and I cannot remember whether this one is or is not. But, I am quite satisfied it is a very good business arrangement from our own point of view.

Mr. HORNER (*Acadia*): And, I presume, the same story would apply in the case of the 28-storey building which is being built in Montreal? Is this a similar deal?

Mr. GORDON: Yes, That is the one between the International Aviation Building and the hotel there. That is the same kind of a deal.

You will note that we talk about the development of the aerial rights over the railroad tracks in the Lagauchetière street area. Following advertisements placed in the papers we recently entered into an arrangement with Concordia Estates in respect of a huge development to be undertaken there. The total aerial rights consist of a 233,000 square foot block of land under a 99 year lease. The proposal contemplates the construction of a massive 12-storey building of approximately 2 million square feet for the purpose of a trade and merchandising centre, including convention facilities, office space, parking, hotel facilities at the top, and so on. That is now actively in the course of discussion and we made the deal to the extent of their agreeing to take the ground space on a ground rental basis. We have not yet worked out our deal as to whether or not we will take any space in that because there has been no discussion in that respect yet.

Mr. LLOYD: On the same subject, Mr. Gordon, taking Edmonton, Alberta, as an illustration, your report states that agreement was reached with private interests for the construction of a 26-storey building to house commercial offices and a passenger station. Perhaps you already have answered the question but I have to go over the ground in order to obtain the information I require without offering any opinions which, I understand, according to the press, you do not believe in. In this particular instance how did you begin the process of this development?

Mr. GORDON: We advertised that we had space available and invited proposals. Now, we cannot make specifications, we simply let the promoters whom we felt might be interested, know that the space was available and we invited ideas or proposals. Then, we select from the proposals received the one that seems to be most advantageous.

Mr. LLOYD: How many proposals did you receive?

Mr. GORDON: We did not receive more than, I think, two in this particular case.

Mr. LLOYD: Did you say two proposals?

Mr. GORDON: Yes, I think so.

Mr. LLOYD: And, in this case—I think the question already has been asked, and I am sorry if it has been, but I would like to refresh my memory in this respect—did you lease the land in the case of the Edmonton development?

Mr. GORDON: Yes, it is on a long lease basis.

Mr. LLOYD: For how long?

Mr. GORDON: I do not remember, and that is what I said. I have not that particular. But, it would be long, a minimum of 40 years. However, I would have to check on it in order to be definite.

Mr. LLOYD: At the end of the lease term is it subject to renegotiation?

Mr. GORDON: Probably, but I have not the particulars of the lease. I do not remember at the moment but it probably would be on the basis of a renewal of the lease subject to an arbitration clause in case of disagreement.

Mr. LLOYD: Is there some final period of time when the renewals are no longer at the option of the lessee?

Mr. GORDON: Yes, there would be a closing date.

Mr. LLOYD: In the case of Edmonton, did you provide for the return of the property to the railway? Or is it abandoned to the high sea?

Mr. GORDON: That I cannot remember. It depends on what form of lease we have.

Mr. LLOYD: That is highly informative, I must say.

Mr. GORDON: Mr. Lloyd, I take exception to that comment. I am doing my best to give the committee the knowledge I have.

Mr. LLOYD: I would suggest that you answer the questions. If you cannot answer them—

Mr. GORDON: I have been answering the questions and—

Mr. LLOYD: The record will speak for itself.

Mr. GORDON: Perhaps you can refrain from your comments.

Mr. LLOYD: I was not going to mention this, Mr. Chairman, but in today's press there is a report of a statement made by Mr. Gordon, who said:

I am not prepared to accept your interpretation of anything.

Mr. Chairman, I am not making interpretations; I am looking for information. If Mr. Gordon does not know, he can get the information and provide it to the committee.

May I proceed with my question? The pedantic antics may be eliminated, Mr. Gordon. I understand you would naturally not recall all the details.

Mr. GORDON: Isn't that amazing?

Mr. LLOYD: Do you recall any leasehold agreements?

Mr. GORDON: Yes, and I also recall the ten commandments and some sections of the Bible too.

Mr. LLOYD: Is it the practice of the railway generally to lease out land with the property being returned to the railway at the end of the leased term?

Mr. GORDON: It depends entirely upon the circumstances of the deal.

Mr. LLOYD: Have you had any deals, Mr. Gordon, in which the land is not to be returned to the railway?

Mr. GORDON: Not that I recollect.

Mr. LLOYD: Do you have any agreements under leasehold arrangements whereby the land is returned to the owner, to the lessee, or held or abandoned to the lessee?

Mr. GORDON: I do not recall and I do not make a practice of memorizing the details of leases that we enter into.

Mr. LLOYD: Do you recall the general policy of your railway system, Mr. Gordon?

Mr. GORDON: I do.

Mr. LLOYD: Which of these general policies do you follow, or do you follow both of them?

Mr. GORDON: It depends upon the location; it depends upon the particular area. The circumstances, for example, in Quebec are quite different legally and otherwise from the circumstances in the rest of the provinces.

Mr. LLOYD: Because of a particular type of lease?

Mr. GORDON: Yes.

Mr. LLOYD: I believe you used a—

Mr. GORDON: There is a lease called an emphyteutic lease—and I hasten to assure you that I do not know how to spell the word, but I can find out. It provides usually for a 99 year lease term.

Mr. LLOYD: So you cannot inform this committee, which, by the way—

Mr. GORDON: Yes I can.

Mr. LLOYD: —is the main committee responsible to parliament and to which your corporation is accountable, though it is true through a minister but in practice through this committee—

Mr. GORDON: I do not need any lecture from you about my duties.

Mr. LLOYD: I am not giving you any lecture.

The CHAIRMAN: Order, Mr. Lloyd. Would it not be much better at this stage if you were to ask Mr. Gordon whether he can get this information for the committee tomorrow? I am sure it is information which is available, and if the witness does not recall at the present time, surely he should so state and, at the same time, state that tomorrow he can give us that information. Is that no so?

Mr. GORDON: If the information is reasonable I will try to get it, but it is quite impossible for me to remember details of leases all over the country. If you will tell me what the specific question is, without gratuitous comment, I will try to get the information.

Mr. LLOYD: I am refraining now from gratuitous comment but we are hearing gratuitous comment from the witness. I am restraining myself on this matter. Again, reverting to the type of question with regard to the 24 acres of property in downtown Saskatoon, proposals were invited in 1963 for his 24 acres. How many proposals did you receive?

Mr. GORDON: I would have to look up my file on that.

Mr. LLOYD: Earlier, general agreement, the report said, had been reached with the city for the ultimate use of the property. What were the principal elements of that agreement, Mr. Gordon?

Mr. GORDON: I would have to look up my file on that.

Mr. LLOYD: The report goes on to say that the C.N. plan involves moving almost all of its facilities to Chappell on the southwestern outskirts of the city

where a new freight yard, passenger station and the like are being built. Do you recall anything about the nature of this development in Saskatoon?

Mr. GORDON: Yes, it was a very large development involving a great number of complex arrangements with the city.

Mr. LLOYD: In that particular case the land title was held by the railway or transferred to the city?

Mr. GORDON: It involved a rearrangement of our facilities in collaboration with the planning authorities of the city.

Mr. LLOYD: Did you provide for holding the land in your own title, the title of the railway, or did you transfer this?

Mr. GORDON: I do not remember.

Mr. LLOYD: To come back again, when a property is developed on leased land do you make provision for the payment of moneys, taxes, by the developer?

Mr. GORDON: I would have to look up the file and see the details.

Mr. LLOYD: You do not know the answer to that? You do not know the general practice?

Mr. GORDON: I know the general practice well enough but it varies from point to point. Each deal is a separate deal and is guided by the details of that particular situation.

Mr. LLOYD: Let us come to Montreal and see if you can recall anything about that. You had the figures of cost a little while ago and I assume you remember some of the details. In Montreal, work will begin in 1964 on a 28 story commercial office building east of the Queen Elizabeth hotel on Dorchester Boulevard; and being built by private interests is another project. What was the procedure in this case to discover a developer?

Mr. GORDON: It was advertised and we received several proposals, and we chose the one that we thought suited the purpose best.

Mr. LLOYD: Do you recall how many proposals you received?

Mr. GORDON: I would think about three.

Mr. LLOYD: In this particular case, is the land leased?

Mr. GORDON: The land is leased, yes.

Mr. LLOYD: You do not recall the terms, I gather.

Mr. GORDON: No, it was an emphyteutic lease, as I recall it.

Mr. LLOYD: What happens to the land site in this particular case? Is it returned to the railway at the expiration of the lease?

Mr. GORDON: I have already explained what an emphyteutic lease means in the province of Quebec.

Mr. LLOYD: What criteria do you use for evaluating terms of a lease?

Mr. GORDON: Good business judgment.

Mr. LLOYD: Good business judgment?

Mr. GORDON: Good business judgment, yes.

Mr. LLOYD: And, I presume, by this you mean that you have an appraiser's valuation of the land and you use this as one of your yardsticks?

Mr. GORDON: We have a development department which is competently staffed, and all these questions are looked into by them. The recommendations come forward to me from the appropriate officials in regard to the details.

Mr. LLOYD: So you cannot advise the committee on the specific details without reference to your staff? That is what you are saying?

Mr. GORDON: No, that is not what I am saying.

Mr. LLOYD: What did you say?

Mr. GORDON: I said what I said. The *Hansard* record will show it.

Mr. LLOYD: You have just said that you had competent staff.

Mr. GORDON: That is right.

Mr. LLOYD: And I have asked several specific questions and either you did not care to give the answer or—

Mr. GORDON: I have given you the answer but you do not care to hear it.

Mr. LLOYD: You have given beautiful generalities but not specific answers. I am trying to find out what is the practice of the railway with respect to disposal of the property and with respect to sale by lease.

Mr. GORDON: I have told you four or five times about the general practice but you keep wanting to put some twist to it in order to try to discredit me in some way.

Mr. LLOYD: I have no desire to try to discredit you in any way.

Mr. GORDON: If you have not, you appear to be trying to.

Mr. LLOYD: I am asking questions and I would you to be specific if you can, but if you cannot be specific you can say that you will try to get the information.

Mr. GORDON: Let me try to repeat: Where we have property and particularly where we have aerial rights—that is, the use of property over our track—we try to develop it by enlisting interest on the part of promoters who are willing to erect buildings over particular parts of our line on a basis that they will pay us a ground rent for the use of the property; and that ground rent takes the form of a lease for certain periods of years. All the necessary precautions in that respect are taken when the deal is made. It happens on occasion that in some of the buildings we might rent some of the space ourselves, but it is not then necessarily part of the deal; it will depend upon the circumstances. However, the construction of the building is purely a promoter's risk. It is a private enterprise risk, and if the promoter makes money on it, so much the better. In the meantime, we have utilized property which is otherwise lying idle.

In some other cases we work in collaboration with the city authorities and the planning authorities. It may be that there will be rearrangement of property, a rearrangement of trackage, and collaboration with the planning authority so they can plan their traffic facilities, and so forth. However, all of these deals are intricate and have to be worked out very carefully.

Mr. LLOYD: So your development department advises you in connection with the details of these proposals?

Mr. GORDON: Yes, of course.

Mr. LLOYD: And then they made a recommendation through appropriate staff people which eventually reaches your desk where, I presume, it is reviewed. Then who makes the final decision?

Mr. GORDON: The board of directors.

Mr. LLOYD: The board of directors of the railway?

Mr. GORDON: Yes.

Mr. LLOYD: Is any reference made to the Minister of Transport on such matters?

Mr. GORDON: No.

Mr. LLOYD: You have the final decision and it rests in your hands?

Mr. GORDON: It is a matter for management.

Mr. LLOYD: It is a matter for management to decide what shall be the terms of the lease or the sale price of the land?

Mr. GORDON: That is right.

Mr. LLOYD: Have you sold freehold titles of land in any of these developments?

Mr. GORDON: No, but again I would have to check on that. You are getting into legal terms and matters which I would have to refer to our legal department.

Mr. LLOYD: What legal terms?

Mr. GORDON: The question of freehold land has a legal connotation that needs to be examined.

Mr. LLOYD: Well, have you sold any land which the railway company owns to any private persons, transferring the title to them?

Mr. GORDON: Oh, yes.

Mr. LLOYD: That is what I meant by freehold.

Mr. VAUGHAN: I thought you meant in these developments.

Mr. LLOYD: I am not a lawyer but I can find ordinary common language which describes the situation.

Mr. GORDON: Well, we sell land all the time and have done so for years.

Mr. LLOYD: What is your practice in regard to the sale of such land?

Mr. GORDON: To get the best price we can for it.

Mr. LLOYD: How do you go about ensuring you get the best price? What steps do you take?

Mr. GORDON: We have a real estate department which is competently staffed and which makes an appraisal of the value of the land, and in some cases we employ outside consultants to give us an appraisal; and, generally speaking, we do what any prudent businessman would do in the disposal of property of that kind. We have another factor that we keep in mind in regard to the interests of the railway, and that is when we sell land we try, as far as it may be possible, to get people on the land who might be traffic producers for the railway.

Mr. LLOYD: So there have been cases where you may have been offered more for land, but the developments indicated on the site may not have been in the best interests of the railway.

Mr. GORDON: Absolutely no. You draw inferences from my statement which are completely unjustifiable.

Mr. LLOYD: Mr. Chairman, the witness seems to be determined to distract attention from my line of questioning. If anyone is broadly interpreting, I think it is the witness.

Mr. GORDON: Your last question was not a question at all; it was a statement. You said: So it follows from that that you are doing thus and so. That is not a question; it is a statement.

Mr. LLOYD: We can be very precise. Have you sold any land of Canadian National Railways with a freehold title to the land in the last year, or the year under review in this report, 1963?

Mr. GORDON: Not to my knowledge.

Mr. LLOYD: You sold no freehold land?

Mr. GORDON: I did not say that. At least, I misunderstood your question again. I said earlier that we have sold land and do sell land.

Mr. LLOYD: Did you sell any in 1963?

Mr. GORDON: I would imagine we did, but I do not know the details.

Mr. LLOYD: Would it be possible for you to supply the details to this committee?

Mr. GORDON: Yes.

Mr. LLOYD: How long will it take you to get that information?

Mr. GORDON: I do not know.

Mr. LLOYD: Is there any reasonable objection to providing the committee with these transactions?

Mr. GORDON: None at all.

Mr. LLOYD: And you will be willing to supply that information?

Mr. GORDON: It will depend again upon the circumstances. I want to see what the circumstances are before I commit myself.

Mr. LLOYD: In other words?

Mr. GORDON: Yes, in other words.

Mr. LLOYD: What kind of consideration would stop you from giving us this information, Mr. Gordon?

Mr. GORDON: The kind of consideration that I might be divulging information which pertains to another person's business. We enter into transactions, just as any business does, with other people. The other people concerned may not be willing, or may not like me to divulge what their business plans are and what they are doing. Therefore, I would respect their wishes in confidence; otherwise, it would militate against us in doing business at all.

Mr. LLOYD: You feel there might be some cases where it is not in the public interest to provide such information?

Mr. GORDON: It would be, yes.

Mr. LLOYD: And you establish yourself as the sole judge in that case?

Mr. GORDON: No, I did not say that.

Mr. LLOYD: Then, why can we not get this information from you?

Mr. GORDON: The other party might object to having his business spread on the records of this committee. I think it is a reasonable thing that we should respect the confidence of the people we do business with; otherwise it would militate against the best interest of the Canadian National Railways.

Mr. LLOYD: So we cannot obtain under this section any information other than the fact that you have conveyed some real estate under lease, and you cannot give us any specific details of the transactions.

Mr. GORDON: If you have any particular transaction in mind, I would like you to state it.

Mr. LLOYD: I would like to have the details of the Alberta agreement, the agreement with respect to Saskatoon, and the agreement with respect to the Montreal 28-storey commercial building. I would like this information for the committee.

Mr. GORDON: The Montreal complex would cover a file about "that high".

Mr. LLOYD: This is not directed to Mr. Gordon. It was the practice in the United States when a civil servant was questioned—I do not say it necessarily applies here, but it is an interesting observation—that when he wanted to deter the questioner, he would drive to his office, load up a truck, and drive back with the contents and say "There is your answer". I am not asking for that kind of answer here. All I am asking for are the general details of the transactions.

Mr. GRÉGOIRE: What are general details?

Mr. LLOYD: Oh, what were the terms and conditions of the leases, how long were the terms of the leases, what were the ground rents involved, and the like.

Mr. GORDON: I cannot tell you what is involved in trying to answer a question of that kind. Therefore, I cannot commit myself and say that I can obtain it today, or tomorrow. I do not know.

Mr. LLOYD: That happens every day in the house. We accept it that there must be some reservation on your part.

Mr. GORDON: If you will leave the question with me I shall endeavour to answer it to the best of my ability, and if my answer is acceptable to the committee, perhaps it might be incorporated in the evidence later on.

Mr. LLOYD: Thank you. I would like you to do so. I would like to have information with regard to these particular transactions, the general conditions of the leases, whether or not the property is to be returned to the railway at the expiration of the leases, or to continue to be held by the lessee under freehold title or not. I would like to know what the position is with respect to tax payments to the local municipalities, and I would like to know the details of the bids for any freehold sales that may have been involved in these transactions.

Mr. GORDON: Well, as soon as I can get from *Hansard* exactly what you are asking for, I shall have it examined by our officers.

Mr. PASCOE: My questions were in regard to redevelopment, but I shall skip them now in the light of what has gone on. However, has the work started now on the Saskatoon development?

Mr. GORDON: I believe so. There was a very detailed press release made by the railway and by the city at the time the transaction was consummated. I do not happen to have it here, but I am sure that a look at that press release would cover most of the things you may have in mind. I will see if I can put my hand on it.

Mr. PASCOE: That is all the questioning I have.

*(Translation)*

Mr. GRÉGOIRE: I would like to know whether the Canadian National—I would like to know whether the CNR are planning for the development mentioned here, in the town of Jonquière in Lapointe county?

*(Text)*

Mr. VAUGHAN: Perhaps I could answer that.

Mr. GORDON: By all means.

Mr. VAUGHAN: I think there has been some planning done by the St. Lawrence region as to the possibilities of what we call an industrial park in the Jonquière area. I am not sure at the moment exactly where the project stands, but I would be glad to find out for you.

*(Translation)*

Mr. GRÉGOIRE: Would this consist of an industrial development similar to the ones mentioned here?

*(Text)*

Mr. GORDON: No, it would be a different kind of thing. This is a case where we would be trying to interest various types of industry to locate in a given area, in what we call an industrial park. It would not necessarily be that we own the property at all. It might be that we are discussing with some promoter, or with the city, or with any interested parties that it is a good idea to get a certain area zoned as an industrial park by the city, and that we would provide a specialized railway service to serve that particular area. This is one of many different things that we do in order to encourage traffic. We will ask the city authorities, or anybody else who might be interested in encouraging that sort of development.

(Translation)

Mr. GRÉGOIRE: Is it the Canadian National or the municipality that would initiate such a project?

(Text)

Mr. GORDON: It could be either one, but as a practical matter, it is usually the railway which starts to promulgate an idea. It is part of our sales effort to get an idea across. If we see an opportunity in a particular area, our officials may go and talk to the people and get them interested in it. On the other hand, we have had instances too where the city itself might start talking about it and would bring us in on the conversations.

(Translation)

Mr. GRÉGOIRE: Mr. Gordon, one last question. Do you think the development of the industrial site at Jonquière stands a good chance of succeeding?

(Text)

Mr. GORDON: I cannot answer that. Negotiations are being conducted by our St. Lawrence region and I have not received information on it. All I can say is that I think it is at a preliminary stage, but we are hoping for the best. I cannot tell. I would be glad to let you know when I get back and find out just where the negotiations stand.

(Translation)

Mr. BEAULÉ: I have a supplementary question, Mr. Chairman. Mr. Gordon, are you providing a new line to connect Quebec City and the Lac Saint Jean area in relation to the industrial site?

(Text)

Mr. GORDON: No, I do not visualize that. I do not know just how that could happen.

(Translation)

Mr. GRÉGOIRE: There is none at the present time. There is no railway line directly connecting Quebec City and the Saguenay-Lac Saint Jean area. The only train arriving at Jonquière or Chicoutimi originates in Montreal.

(Text)

Mr. GORDON: There is nothing before us at the present time.

The CHAIRMAN: Mr. Korchinski?

(Translation)

Mr. GRÉGOIRE: Mr. Chairman, one final question before I pass. Does the Canadian National, the C.N.R., see the possibility of building a trunk line which would be a first-rate trunk line, between the Ungava mines or iron ore mines and New Quebec and the Saguenay-Lac Saint Jean area, the Jonquière-Chicoutimi area?

(Text)

Mr. GORDON: No, we have nothing specific in that connection. We would have to await a development such as you mention to reach the point where there is some obvious interest in it. We keep in touch with any of these potentials, and we of course would be immediately available to promoters in offering service, just as soon as we hear about it. But there is nothing specific at the moment so far as I know.

Mr. KORCHINSKI: My question has to do with the development in Saskatoon.

Could you tell us whether there is any comparison between the amount of land turned over to the city, and the amount of land that you had to acquire for the new development. Are they comparable?

Mr. GORDON: I am afraid I do not get the point of your question?

Mr. KORCHINSKI: You have approximately 24 acres turned over to Saskatoon. I wondered how much land you had to acquire for your new station and new yard. Is it comparable?

Mr. GORDON: Do you have the actual acreage, Mr. Demcoe?

Mr. DEMCOE: No, I do not have that information. There is city property involved, and there is the property for the yard.

Mr. GORDON: It would not be more than ten or twelve would it?

Mr. DEMCOE: Oh, there is more than that, because we are putting in a yard and station grounds. There would be more property obtained.

Mr. GORDON: I do not seem to have the actual acreage that we are using in connection with this yard. As best as we can put it together sitting here it would be something in the nature of a swap, but I cannot give you the exact figure.

Mr. KORCHINSKI: The point of my question is that certain quarters in Saskatoon, I understand, claim that the deal was a really good one. I wondered, since the city is involved in this case, and you have not sold other property, whether the amount you might have obtained by leasing this property is comparable to the taxes or the grants which you would have to pay to the city.

Mr. GORDON: I can only say in a general way with the deal we made with Saskatoon, after we had taken everything into account, the property that we gave up and the property that we had acquired and so on, we felt that it worked out advantageously to the railway.

Mr. KORCHINSKI: The city claims that it was a good deal.

Mr. GORDON: That is right, it was a very good deal because both parties to the deal are satisfied. But you must remember that the point of view of the city is different from our point of view, because one of the things that they acquired was of great advantage to them, namely, relief of traffic congestion. They valued that aspect much higher than we would, because we were not interested in traffic congestion. The city put a valuation in connection with alleviating their traffic jam and this encouraged them in the matter, so that they could say that they got an advantageous deal, since it met their needs. We in turn got an advantageous deal because we were looking for a piece of property to meet the requirements for our yard. Therefore, it turned out to be an advantageous deal to both sides.

Mr. KORCHINSKI: I have one more question. When the question of taxes arises concerning this new development on the property you have acquired, does that question have to be dealt with by the Canadian National Railways or by the individual who is promoting the project?

Mr. GORDON: You are talking about the building now?

Mr. KORCHINSKI: Yes.

Mr. GORDON: The private promoter would be responsible for his taxes with the city on the basis of whatever deal he made with them.

Mr. ROCK: Mr. Chairman, Mr. Gordon, I have been an alderman in the city of Lachine for over twelve and a half years.

Some hon. MEMBERS: Hear, hear.

Mr. ROCK: During that time we have had some dealings with the C.N.R. One dealing involved the purchase of a large piece of land for a filtration plant,

and I believed at that time and still do believe, that we made a very good bargain with your real estate department. Of course, this land was for the purpose of building a filtration plant which is a municipal service.

We did have some dealing in respect of the abandonment of the railway tracks within the centre of the city and we wanted to purchase that land. At that time as an alderman, looking through the eyes of an alderman, I felt that your department charged us quite a bit. Of course, I also understand that this land was used for the purpose of development for homes and today as a member of parliament I would say that your department did a good job. However, as an alderman at the time I did not think that way.

Mr. GORDON: I am glad to hear it.

Mr. ROCK: You also have a large hump yard within the city limits, and within the limits of St. Laurent. You also have some land available I believe for industrial purposes. I believe that you are promoting industrial sites in that area. The city of Lachine at that time did develop that area which is zoned completely as industrial. We contemplated building a road across the tracks around 32nd avenue. I should like to know whether the C.N.R. has any intention of co-operating completely with the city of Lachine so this overpass can be built in that area in order that we would have two accesses to that industrial area rather than just one at 55th avenue?

Mr. GORDON: Our general policy is always to co-operate to the maximum extent possible particularly in trying to meet the traffic problems of an area, but I cannot tell you at the moment about this specific point. Again I will be glad to take a look at it. You made one point which I think should be clarified. As a matter of policy we do not buy land for speculative purposes.

Mr. ROCK: I understand that.

Mr. GORDON: We do not buy land for speculative purposes. It may be that in the course of working out real estate deals, as we do with the city of Montreal, for example, we will swap a piece of property that they are anxious to get for a piece of property somewhere else, and that piece of property may then become available for industrial purposes. We try to sell it to people who will produce traffic. Basically we do not speculate in real estate.

Mr. ROCK: Yes. You have many spur lines and trackage going through undeveloped urban areas. Has your department ever contacted the municipalities concerned asking them to pass zoning bylaws so that the areas will be industrial?

Mr. GORDON: Yes we have had discussions of that kind.

Mr. ROCK: I should like to discuss this aerial right idea. Several months ago I think a drawing by an architect in respect of an idea for the city of Toronto involving an aerial development of apartment buildings over your trackage facing Lake Ontario appeared in the *Star Weekly*.

Mr. GORDON: Yes. That was in the area out by Sunnyside.

Mr. ROCK: That is right. This was C.N.R. land involved?

Mr. GORDON: That is right.

Mr. ROCK: Has anything developed in that direction?

Mr. GORDON: Yes. We have made a deal with a promoter there who is going to build a series of apartment houses on an aerial right basis.

Mr. ROCK: So this development may come true?

Mr. GORDON: It will come through, and that particular deal is in stages. We have negotiated the first stage with the promoter and, assuming that is successful he has a series of implied options on future stages that will go along with that development.

Mr. ROCK: Are there any plans in this regard in respect of the city of Montreal west of the freight yard offices where you have approaches to the freight yard office?

Mr. GORDON: Are you referring to that area by Bonaventure terminal?

Mr. ROCK: Yes, I am referring to the Bonaventure terminal on St. James street I think it is.

Mr. GORDON: Yes.

Mr. ROCK: Are there any possible plans for doing something similar, perhaps not apartments but office buildings, in this area?

Mr. GORDON: We have no proposal before us but we are willing to listen.

Mr. MILLAR: Mr. Gordon, I wonder whether you will confirm the fact that in the city of London you have a new building?

Mr. GORDON: Yes.

Mr. MILLAR: You have a new station and office building. Is this a lease back proposition?

Mr. GORDON: Again I would have to look up my file in that respect. It is a few years ago that we did enter into an agreement with the promoter for the redevelopment of the London station property. I have not got the details with me.

Mr. MILLAR: There has been a new building completed there?

Mr. GORDON: That is right.

Mr. MILLAR: There was a considerable amount of criticism throughout the city when the C.N.R. wrecked property which was one of the few good stations you had in western Ontario and built this new one, because we now end up with a vacant lot and a new building. People have asked me questions of this type.

Mr. GORDON: The vacant lot was to be used in respect of a proposal involving a motel complex, as I remember, and the motel complex just did not go through because the developer at that time found in due course that his project was not economically feasible since other people had got in ahead of him. He only had a tentative understanding, so at that time we did not have a contract with him but it was under discussion. He got cold feet, if you want to put it that way, because of the competition that had been stirred up by the other motel developments.

Mr. MILLAR: I am simply asking you these questions because I in turn have been asked them. It would seem to me that the vacant lot now proves that this criticism in respect of wrecking a perfectly good C.N.R. station is somewhat justified.

Mr. GORDON: I would not think so. I am quite sure the station was not wrecked until we justified it from an economical point of view and decided it was more advantageous to us to do so. Again I say I would have to look at the basic deal.

Mr. MILLAR: That is all, thank you.

The CHAIRMAN: Do you wish to ask a question Mr. Cadieu?

Mr. CADIEU: No.

The CHAIRMAN: Mr. Irvine?

Mr. IRVINE: I should also like to ask a question in regard to some of the affairs in the city of London. I have a copy of a letter from the Minister of Transport to Mr. Gordon dated May 11 in which he made a request that the board of directors, on the direction of Mr. Gordon, might check into the possibility of continuing the car shops in London. I wonder about this situation because naturally not receiving a copy of Mr. Gordon's reply I do not know what the result of this query was.

Mr. GORDON: The result of the query was that at the request of the Minister of Transport we made a very thorough review of the whole situation affecting our London shops, with our Board of Directors. We were asked to specifically discuss it with the Board of Directors again and establish whether or not I could inform the minister that the Board of Directors still agreed with the decision that had been taken. We had a very thorough review at our Board of Directors meeting and I replied to the Minister of Transport giving him the full details of the memorandum which we prepared at that time confirming that the Board of Directors fully supported the action.

Mr. IRVINE: At this conference we had at which two or three submissions were presented by various unions, and officially by the city of London, the question was asked whether you had a committee or a portion at least of the board of directors visit London for this specific purpose, as the Minister of Transport asked you to do in his letter?

Mr. GORDON: No, they did not. The Board of Directors considered that request and decided that it would serve no good purpose for them to visit London.

Mr. IRVINE: I hope I am not asking for too long or detailed an answer to my next question, and if I am I will be very pleased to receive that answer as soon as it is convenient, but I should like it to be conveniently soon. Why is it not considered practical to keep the London car shops open in view of the amount of rolling stock that goes through that area and in view of the fact you already have the equipment there, the manpower? I understand an extra shift went on work last week. I should like to know why it is not considered practical to keep these shops open?

Mr. GORDON: I will give you the short answer to that question and perhaps Mr. Demcoe will add something to it.

The short answer is that the London shops are not modern shops. Their equipment is out of date. The shop has been centralized so to speak at Point St. Charles, Montreal, to get the benefits that flow from centralization. In other words, in our Point St. Charles shops, where we have brought many shops together at a centralized point, we are able to afford the type of equipment to do the job on a more economical basis through centralization than we could with these scattered shops. The London shop is one of quite a number of shops that have been closed in fairly recent years. Our economical analysis of that shop showed quite clearly that we were justified in this action.

Mr. Demcoe, would you care to add anything to what I have said?

Mr. DEMCOE: Yes. We not only have shops in Montreal but we also have shops in Winnipeg and at Moncton, and the capacity of these three shops is more than sufficient for our needs at the present time.

Mr. IRVINE: Referring again to the question in respect of property, I understand that according to plans the property in London will be available sometime in 1965 or 1966. What do your present plans envisage for the disposition of these properties?

Mr. GORDON: These properties will become available. We think they are valuable properties and we hope to develop them from a real estate point of view.

Mr. IRVINE: Has any thought been given to disposing of them from an industrial standpoint in order that you might induce manufacturing industry into that area?

Mr. GORDON: We would try to do that. That would involve part of our efforts toward the disposition of the property in due course. We were able to do that, you may recall, in respect of the Stratford shops and I hope we will be able to do the same thing. After all, this is a sales offer and whether we are successful or not remains to be seen. But that will be our objective.

Mr. MILLAR: I should like to ask a supplementary question. How can you justify closing the London shops in view of the information we have received to the effect that the Montreal shops are overloaded, working seven days a week and have a yard full of cars that cannot be looked after? That is the information with which we have been supplied.

Mr. GORDON: You were not supplied with that information by management?

Mr. DEMCOE: The shops in Montreal, Winnipeg and Moncton are on a five day week. Within the last week we have authorized all the main shops in Canada to work a sixth day from now until the men start holidays, because of the heavy traffic, and because there are two types of cars we are short of at the moment. I refer to the open topped equipment. We want to get the cars of that type that are at the shops now completed before the men begin to go on holidays.

Mr. MILLAR: Have your economic experts told you that it is cheaper to ship a car from western Ontario to Montreal, repair it and return it than it is to do the job in London?

Mr. DEMCOE: The shops are located strategically at Winnipeg, Montreal and Moncton. When a car comes into those particular areas for repair it is sent to those shops. It is true there are some cars taken out of service at other points, such as Toronto, and we have to haul them to say Montreal, or in some cases even to Winnipeg.

Mr. MILLAR: With your shops located in Montreal it follows naturally that anything needing repair in western Ontario will be sent to Montreal.

Mr. DEMCOE: We have centralized all our refrigerator car repairs in Winnipeg, so if a car of that type is in bad order and we cannot use it to haul a load west we would have to haul it light from here to Winnipeg to repair it.

Mr. GORDON: Does that answer your question?

Mr. MILLAR: Have your economic experts indicated that this is the best thing to do?

Mr. GORDON: Yes.

Mr. DEMCOE: Yes, that is right.

Mr. MILLAR: I have one other question. Do you deny, or is it true, that western Ontario is one of the most profitable areas in respect of freight as far as the C.N.R. is concerned?

Mr. GORDON: That would depend on the area to which you are referring.

Mr. MILLAR: I am referring to the Toronto area, or the great lakes region as I believe you refer to it.

Mr. DEMCOE: Yes, I understand that is true.

Mr. MILLAR: Do you not think it reasonable in view of the fact you receive a large portion of your income from a specific area that you should give more consideration to the spending of some of your revenue in that area where you receive it?

Mr. DEMCOE: We do carry out light car repairs and medium repairs at points such as Toronto, Hamilton, Sarnia and Fort Erie.

Mr. MILLAR: That is true, but is it not a fact that the staff at the car shops in the city of London represents a small percentage of what it was originally?

Mr. DEMCOE: That is true.

Mr. MILLAR: Yet your income in that area has increased. I am fighting hard for the people of the city of London. Therefore, I will argue this strongly and urgently, and I think I have a reasonable argument.

Mr. GORDON: Well, this London shop—

Mr. MILLAR: Just a minute, Mr. Gordon, I do not like to interrupt you, but I am aware that you are more capable than I am of answering these questions. What would the Canadian National think of a trucking company, if they could find one the railways do not own, going to manufacturers in western Ontario and saying: "I say, how about shipping your stuff on trucks; the railroad is not leaving any money here". Is that unreasonable?

Mr. GORDON: They will do just that if it suits their competitive interest. The only way we can handle traffic is to handle it better, more efficiently and at a lower cost, and as long as the trucking company can take it from us, they will.

Mr. MILLAR: Yes, I understand, even if it belongs to the Canadian National.

Mr. GORDON: Yes?

Mr. MILLAR: But, at the same time, I think you should give some consideration to the good customers you have in western Ontario; in other words, I think you should put money back in where you take it out. Even the government tried to do that once in a while.

Mr. GORDON: Well, I do not know of any shops that have received more detailed consideration and analysis than the London shop.

Mr. MILLAR: I am aware of this.

Mr. GORDON: And, I do not think I have met more groups in connection with any particular move than I have in the case of London. I am quite convinced that our move is thoroughly justified in respect of the economics and the efficient running of the railroad and that, after all, is our job.

Mr. MILLAR: I have one further question.

Mr. ROCK: Mr. Chairman, are we on operations now or still on real estate?

The CHAIRMAN: We are on real estate.

Mr. MILLAR: I will withdraw the question I was going to put.

Mr. MACDONALD: Mr. Gordon, I understand your Toronto yard will be in operation next year. Do you expect to replace a lot of the downtown freight trackage in the Front Street area.

Mr. GORDON: Well, when the hump yard comes into operation, of course, all our marshalling and sorting of trains will take place in the hump yard and we will not have the congestion that we have down town in the Front Street area which you mentioned.

Mr. MACDONALD: Then, will you be taking a lot of the Front Street trackage up or will you be leaving it there?

Mr. ROCK: Again, Mr. Chairman, I must interrupt on a point of order. I understood that we were still on real estate but Mr. Macdonald is directing his questions in respect of operations. Industrial development comes after real estate and then operations.

Mr. MACDONALD: I will put it this way and then if Mr. Gordon says no I will agree with Mr. Rock but if he says they are going to take it out of operation, then there will be some real estate to dispose of.

The CHAIRMAN: I have allowed your questions on the premise that you were going into a question having to do with real estate. However, I think we are going a little far afield. Mr. Millar stopped when he had a long way still to go in that connection.

Mr. MACDONALD: I will ask just this one question. Do you expect because of the new Toronto yard or otherwise to have a lot of real estate available in the near future.

Mr. GORDON: Yes.

Mr. MACDONALD: And, have you made arrangements for the disposition of this real estate?

Mr. GORDON: The whole question of this very large complex which exists down along Front Street on both railroads and covering aerial rights for both and property which may become surplus is under very careful study. That is as far as I can go as it would be premature for me to give an outline of what is in mind. However, I might say that it will be a big, big project and take a long time in the preparation of it.

Mr. MACDONALD: Could you advise whether or not the Front street property is owned by the Toronto Terminals or by yourself?

Mr. GORDON: These properties are owned by the Canadian National and Canadian Pacific. Toronto Terminals, as I recollect it, is an operating company only.

Mr. DEMCOE: Yes, Toronto Terminals is an operating company.

Mr. GORDON: It is owned by the two railways but itself does not hold real estate. The division of the property was made many years ago and, generally speaking, the property to the west of the station is Canadian National property and the property to the east of the station is Canadian Pacific property. That is subject to some qualifications but, broadly speaking, that is it.

Mr. MACDONALD: So you cannot make any definitive statement at this time in respect of the aerial rights or otherwise in downtown Toronto.

Mr. GORDON: No, except to say it is a big project and is under examination.

*(Translation)*

Mr. MARCOUX: There is a question I would like to ask regarding the stations jointly operated by the Canadian Pacific and the Canadian National, and I wonder if it would be in order to ask that question now; in any case, in order to get an accurate idea, it concerns the Palais station at Quebec City which is owned by the Canadian Pacific. I am not asking for an immediate answer because I know it is quite a specific question and I can wait. Besides, we are going to have a committee to make a thorough study of the railways.

I would like to know what is the percentage of passenger traffic of the Canadian National, as compared with general traffic. I would also like to know what percentage of the station building is used by the Canadian National. I want to know the total cost of operating that station, and finally, how much the Canadian National pay the Canadian Pacific for the use of the Palais station? I know that this is a specific question and that I can only get an answer later on, but anyhow I would like to know.

*(Text)*

Mr. GORDON: Thank you. As you say yourself, we can only take notice of the question because it is very detailed and covers a lot of territory. But, we will take note of it and see what we can do about an answer for you.

The CHAIRMAN: Would you proceed, Mr. Fisher.

Mr. FISHER: Mr. Chairman, my question is along the lines of those put by Mr. Irvine and Mr. Millar and relates to the policy of the railway rather than savings. From what you have said I would assume that you have had a lot of analyses made of the London situation, that you have had cost benefit studies and this type of preliminary preparation.

Mr. GORDON: Yes. Did you have in mind that we have an estimate of what we think the savings would be?

Mr. FISHER: Yes. Also, I want to know further whether you have made any estimate in your cost benefit studies of what are referred to as social overhead costs by some economists. I am thinking of the problem of 400 people having

to move or separate from the London area because of this and whether this factor has been taken into consideration in your analysis or whether you related it strictly to the company situation.

Mr. GORDON: Well, in regard to the latter point, of course, this intended closing of the London shops has been under long, long notice. Notice was given of it quite a few years ago. The current agitation arose out of our efforts, as management, to do the remaining men a favour. It was because we were trying to benefit them that this whole thing got stirred up. It arose in this manner; some years ago the late Mr. Kyle, who was then our vice president of the region, in discussion with the unions informed them of what our plans were for the London shop and made a statement that the final closing probably would not take place until 1966. Now, I do not believe that that should have been regarded as a firm commitment. But, nevertheless, recently it has been raised with us as being a commitment and would we honour it. Our present vice president, in agreement with me, said we would honour the commitment, if they wanted us to but we also pointed out that many of the men have seniority rights under the labour agreement and they could move before then from London to employment at Toronto because in 1965 we believe that we will have need of men of that classification in Toronto in the diesel shops and so on.

Mr. DEMCOE: In the new hump yard shops.

Mr. GORDON: Yes, in the new hump yard shops there will be a need for them and they will be able to exercise their seniority and get these jobs. These are good jobs and of the same kind they are doing now. So, we said, all right, if you will agree to speed up the closing and close in 1965, those jobs will be available but; of course, if you do not bid in on them we will have to fill them anyway and you will lose your place on the totem pole, so to speak. We made that clear to them. This stirred up the agitation along the line that there was a commitment until 1966. Now, we are willing to carry that commitment out. However I do not think it is in the men's interest that we should, and we have so informed them. But, we will do so and we will see what happens out of that.

On the other point, the total estimated savings in closing the London area shops is about \$900,000 per annum for overhead and stores expenses. That was phase I of it. No, I am sorry; that is the total. Furthermore, the property—and one of the other members was mentioning this—on which the shops are located has been appraised and we have an appraised worth from a real estate point of view, which is a little under \$1 million or, say, \$900,000, and we should improve on that.

Mr. FISHER: You are a director of Trans-Canada Air Lines?

Mr. GORDON: Yes.

Mr. FISHER: And, you are aware of the difficulties Trans-Canada Air Lines has had in separating its shops from the Winnipeg area in an endeavour to move them to the Montreal area.

Mr. GORDON: Yes, very much.

Mr. FISHER: And, you are aware that the question which has been raised here again is the sole costs of the social dislocation and the problem in respect of the employees real estate. Has any consideration been given, in view of the fact this is developing as an issue in respect of Trans-Canada Air Lines, in London, and in other places to asking the government to set up a policy in this kind of situation—and, I mean a general policy—that will apply when fairly large operations are being closed down or transferred to other localities.

Mr. GORDON: No, we have not thought it necessary. We think in this case it is a matter for management.

Mr. FISHER: Well, the reaction of the government in the Trans-Canada Air Lines situation would indicate the government feels that in that particular case there is a responsibility for the government to assist in the policy.

Mr. GORDON: I gave up a long time ago trying to comment on what motivates government action.

Mr. FISHER: I am not asking you to comment on what motivates government action. Will you not agree that the government has taken certain actions in connection with the Winnipeg transfer that had the effect of either postponing or altering what actually was in the minds of Trans-Canada Air Lines management.

Mr. GORDON: I am not aware of any postponement, no.

Mr. FISHER: Well, if you want to put it that way.

The CHAIRMAN: Would you proceed, Mr. Horner? Are you finished, Mr. Fisher?

Mr. FISHER: Mr. Chairman, I would like to revert to this question of transfers. When did it first appear to the Canadian National that the consolidation of shop operations in eastern Canada, aside from the maritimes, in Montreal, was the best solution from an efficiency point of view.

Mr. GORDON: This goes back a long way. I think it was started—

Mr. ROCK: Mr. Chairman, are we on real estate?

The CHAIRMAN: We are abandoning real estate.

Mr. LLOYD: I have some questions on industrial development.

Mr. ROCK: There are some other members here who still want to deal with real estate and to ask questions directly related to real estate.

The CHAIRMAN: I have been allowing questions on these yards on the premise that some real estate was being abandoned, but I am thinking, Mr. Fisher, that we are getting into another topic altogether.

Mr. FISHER: Well, the point I am making is that a community such as Winnipeg may be presented with a *fait accompli*, such as T.C.A. in Montreal with the investment it has in its plant, and with the situation in which Canadian National Railways have made a very large investment in Point St. Charles shops, I am quite prepared to believe that if the move does not go forward it is going to cost Canadian National Railways money. However, at some of the preliminary stages before any commitments were made for expansions and for capital investment in the Montreal area, surely it is worth knowing whether, all these factors were considered and whether this is not a *post hoc propter hoc* presentation.

Mr. MACDONALD: Explain!

Mr. GORDON: Translation please!

Mr. FISHER: I am suggesting that it is possible that this figure of the actual gain to Canadian National Railways is a figure given after the event to justify a decision taken before the event.

Mr. GORDON: I was starting to say this: the real meaning of the closing of these small shops and the concentration in three major shops, namely in Moncton, Montreal and Winnipeg, arises as a direct consequence of the discontinuance of steam locomotive power. The steam locomotive, generally speaking, is a machine that travelled about 130 miles and then needed attention—I repeat, about 130 miles. Therefore, you will find there are repair shops placed all across this country on the basis of the need of the locomotive. With the advent of diesel, all that changed and it became very much to our economic advantage to take advantage not only of the diesel's ability to travel from

Montreal to Vancouver and back without any service apart from gasoline and oil, if you want to put it that way—fuel oil—but also to set up the tools and whatnot in the main shops to take advantage of centralization. We are able to put in better types of equipment, employ better types of handling, and centralize the actual need for the major repairs in three different spots throughout Canada instead of having a conglomeration of these various types of places, equipment and means of dealing with our repairs on a decentralized basis. It was basically an outcome of the giving up of steam locomotives that led to the discontinuance of these small shops.

Mr. FISHER: And in all the plans in connection with the shops in Montreal, all the cost factors were studied before, for example, Mr. Kyle gave the indication to the shop people?

Mr. GORDON: Oh, yes indeed.

Mr. FISHER: In other words—

Mr. GORDON: It is part of a major policy.

Mr. FISHER: —these are not figures you are coming up with only now?

Mr. GORDON: No, they are not figures to rationalize after the event.

Mr. FISHER: What is the problem in so far as seniority districts are concerned in regard to the three main shops you now have?

Mr. GORDON: Problems in what way? I am not sure that I follow you.

Mr. FISHER: Is the seniority held right across the board in all three shop centres?

Mr. GORDON: There are different kinds.

Mr. ROCK: Mr. Chairman, again, we will have labour relations and—

The CHAIRMAN: Do you not think we should wait, Mr. Fisher?

Mr. ROCK: There are other items that we have already passed, such as railway operating revenues, railway operating expenses and capital expenditures, under which these matters might have been discussed.

Mr. FISHER: All right, in the face of Mr. Rock's objection I will desist from this line of questioning.

The CHAIRMAN: I think Mr. Fisher will agree that this should be reserved to labour relations.

Mr. FISHER: I will go into it later, but the question I would like to ask now on real estate—and I do not want an answer now but I would like a report within the next month or so—is in relation to the results of the representations you received from Fort William industrial development with regard to real estate holdings of Canadian National Railways in the lakehead area and particularly in Fort William and its environs.

The CHAIRMAN: Mr. Horner.

Mr. HORNER (*Acadia*): I would like to ask a couple of questions with regard to the Saskatoon development of real estate. Did the city request Canadian National Railways to move or was the move initiated by Canadian National Railways?

Mr. GORDON: It was the city which started the discussions in regard to their traffic problem in the city in order to see in what way we might be of assistance. It went through various stages. I remember one stage in which we were talking about either going over or under our tracks in order to relieve the bottleneck in the city, as you will recall, and we found the cost of that kind of thing made it out of the question. That led to various discussions and negotiations about what was the best thing to do. That then led to the proposal to relocate our track.

Mr. HORNER (*Acadia*): Of the 24 acres that are now owned by Canadian National Railways or will be owned by Canadian National Railways when the tracks are taken up, has any land been sold?

Mr. GORDON: Not to my knowledge. I have a summary here of the redevelopment program which would perhaps cover your main headings. We agreed first to a relocation of the Saskatoon railway facilities from the downtown city yard and the Nutana yard to a new location southwest of Saskatoon at Chappell, adjacent to the Canadian National main line. I think you know where that location is. Secondly, we agreed to the removal of trackage connecting the city yard to the main line. Thirdly, we agreed to a sale to the city of the right of way and a railway bridge over the South Saskatchewan river which was no longer required by Canadian National Railways as a result of the removal of the rail connection to the city yard, and the sale also to the city of the street allowances across the yard. Fourthly, we agreed to the commercial redevelopment of the city yard property following relocation of railway facilities at Chappell.

Fifthly, we agreed to the construction at Chappell of a passenger station scaled to present requirements, transferring thereto passenger station facilities now located in the passenger station building adjacent to the city yard; and, next, to a payment by the city of Saskatoon to the railway of \$2,600,000, \$1,600,000 to be paid on July 1, 1963 and the remainder on July 1, 1964. Those are the main headings of the agreement that we worked out and which, as I said before, the city regarded to their advantage and we regarded to our advantage.

Mr. HORNER (*Acadia*): Do you still own the 24 acres?

Mr. GORDON: No.

Mr. HORNER (*Acadia*): The city owns the 24 acres?

Mr. GORDON: The city does, yes. You were asking about construction. The terminal commenced in May, 1963, and it is well in hand now.

Mr. HORNER (*Acadia*): Why then would you say, if the city owns the 24 acres—

Mr. GORDON: Wait a minute; I think I am confused there. I think I have become mixed up with regard to the 24 acres.

Mr. DEMCOE: That is the downtown area.

Mr. GORDON: Is that the portion we retained?

Mr. DEMCOE: No, that is the portion we sold.

Mr. GORDON: No, I am right; we then invited proposals for commercial development of the 24 acres of city yard that I mentioned that was vacated by the railway; and we obtain the benefit of that.

Mr. HORNER (*Acadia*): Then you still own the 24 acres? Why are you obligated to redevelop this area?

Mr. GORDON: For our own advantage. We are not obligated to do so but we undertook to do so if we could. Which in turn would give the city more revenue by way of tax producing commercial developments.

Mr. HORNER (*Acadia*): I understood that the 24 acres were in the downtown area.

Mr. GORDON: At the city yards. We have made some new transactions here and that is why I am hesitating. I know we sold two acres to the city, for instance, as a site for the centennial civic auditorium, and there are some other transactions of that kind pending; but the city has already bought two acres, as nearly as I can see, of the 24 acres. The rest is what we are developing under the heading that I have been discussing.

Mr. HORNER (*Acadia*): I am sorry, but I have become more confused as I have gone along. I do not want to delay this to any great extent but I would like to clarify it. Are the 24 acres of which you are speaking here in the third paragraph in the downtown area or are they on the outside area near Chappell?

Mr. GORDON: Do you know the area, Mr. Demcoe?

Mr. DEMCOE: I remember from a year ago when the deal was first brought up that we sold certain areas for street purposes to the city. We retained the other property which is being developed by the developer. So there are two different parcels of land.

Mr. GORDON: Where is the city yard?

Mr. DEMCOE: The city yard is actually surrounding the station where the industrial area is opened.

Mr. HORNER (*Acadia*): That is the old yard about which you are speaking now?

Mr. GORDON: The old city yard.

Mr. KORCHINSKI: That it not the new yard.

Mr. HORNER (*Acadia*): You have retained 24 acres?

Mr. GORDON: We did, but I do not know if we still have the 24 acres because I do know that two acres have been sold back to the city for this civic development.

Mr. HORNER (*Acadia*): All right; now I am clear.

Mr. GORDON: This development here—I want to confuse you some more!—about which we have been talking does not necessarily cover the balance of the 22 acres. You see what I mean? It is only a portion of it. My recollection is that the development is not more than about 13 acres, so we still have some property for sale.

Mr. HORNER (*Acadia*): In the agreement for which the city paid you \$2,600,000, are you obligated to develop all or part of this 22 or 24 acres, or can you put it up for sale?

Mr. GORDON: We can put it up for sale in any way we like but there is a gentlemen's agreement that we will try to develop it as a commercial centre, but there cannot be an obligation because we have never undertaken to erect any buildings ourselves.

Mr. HORNER (*Acadia*): But you have encouraged the construction of the new buildings in Edmonton and the new buildings in Montreal?

Mr. GORDON: That is what I mean; we did advertise the property and we have this developer to put up the building. We have encouraged him by taking some of the rental space ourselves. In other words, we are trying to develop that area, and that was our understanding with the city. However, there is no legal obligation upon us.

Mr. HORNER (*Acadia*): You mentioned that it is not the policy of Canadian National Railways to construct buildings. I am thinking of the Calgary hassle concerning Canadian Pacific Railway. Is this the same policy as the policy of Canadian Pacific Railway?

Mr. GORDON: I am not going to talk about the policy of Canadian Pacific.

Mr. HORNER (*Acadia*): But your whole recommendation to this committee in this annual report is based on the desire to be put upon an equal footing or upon the same basis as Canadian Pacific. All I am trying to find out is whether this policy is similar to the policy of Canadian Pacific.

Mr. GORDON: Not necessarily. I can cover it in this way. I mentioned earlier that as a matter of policy in Canadian National Railways we do not buy real

estate for the purpose of speculation, even if we think that by reason of putting in the railway the property will have an enhanced value ten years hence. We do not buy it solely for that purpose. We only acquire property incidental to railway purposes. Now, Canadian Pacific Railway would do that, I believe. I believe they would buy property for speculative purposes. I do not want to be in a position of giving evidence for them, but I believe they do that.

Mr. HORNER (*Acadia*): All I wanted was an answer to the question, and I thank you for it.

In the sale of the 22 acres which are left—you have sold two and I presume the city obtained a clear title to those two acres?

Mr. GORDON: Yes. I think it is well known what they paid for it; that is a matter of public information.

Mr. HORNER (*Acadia*): The point I am trying to clarify is this. What is the policy of Canadian National Railways with regard to the sale of land such as this? Do you put it up to the highest tender? Do you take tenders on it? Or do you just make a good business deal?

Mr. GORDON: We try to stir up interest in it. You see, we have advertised various properties and let it be known that they are available, and we have had no answers at all; or we have had answers for a purpose that we did not approve, a purpose that we did not like, and we would not necessarily be committed to that kind of thing. It is not a tender in that sense; we are not committed to it. We may obtain two or three proposals, and in that case we would look over the proposals and select the one that we felt made the most advantageous use of the property and also accrued most in the Canadian National interest.

Mr. HORNER (*Acadia*): But it is not a basic policy of Canadian National Railways, whenever it has land to sell or space above the track, to put that out for tender or anything of that nature?

Mr. GORDON: No, not generally. This whole effort on our part is a matter of very recent development. For years until recently the land lay there and was not actively stirred up, so to speak, to get interest in the promotion of it. This is a policy that we have adopted in order to try to utilize—depending upon the point of view—either spare lands or waste lands.

Mr. HORNER (*Acadia*): I agree with this idea. But would you say that the system of tenders would not improve your price in any way, shape or form? I am thinking of the 22 acres left in downtown Saskatoon.

Mr. GORDON: No, it is not possible to put it out for tender in that sense. I would not do that. I want to see the land used to the best advantage of the railway. Therefore, we ask people who want to get that land to give us a proposal as to how they propose to use it. If we should just sell land to somebody, he might buy it and hold it for ten years and do nothing. We do not want to see that happen. We want to see the land developed.

Mr. HORNER (*Acadia*): I think that the city would have bylaws to provide that construction must start within such and such a date.

Mr. GORDON: I would doubt it. You cannot force a person to use a piece of land that he owns.

Mr. HORNER (*Acadia*): It may be different in Alberta.

Mr. GORDON: I would be surprised if there was such a law.

Mr. LLOYD: I was trying to get an answer like this earlier.

The CHAIRMAN: I will give you a chance later.

Mr. LLOYD: The answers are very interesting.

The CHAIRMAN: Mr. Crossman.

Mr. CROSSMAN: I am endeavouring to get a few answers on behalf of people who have been questioning me lately. I come mainly from near the riding of Moncton, Westmoreland. Was the development at Moncton similar to the arrangements which you described to us which took place in Saskatchewan and at Montreal?

Mr. GORDON: It was the same general idea, yes. We made land available to the promoter. He had a plan which we approved, and he is working on it now.

Mr. CROSSMAN: In the first paragraph under real estate it says:

Urban development projects were advanced in several centres across Canada in 1963 in accordance with the system's program to redevelop its real estate holdings in co-operation with municipal authorities and private developers.

Mr. GORDON: Yes sir.

Mr. CROSSMAN: Does that mean in co-operation with one or the other or with both?

Mr. GORDON: It means in co-operation with each and both. Often we have first of all to talk to the municipality to get suitable zoning arrangements, because the land might have to be zoned for industrial purposes rather than for residential purposes. Then, when we get that protection, we may talk to a private developer, or it may be that a private developer will approach us first, and we both consult with the city.

Mr. CROSSMAN: Was the city of Moncton approached?

Mr. GORDON: Yes, very definitely.

Mr. CROSSMAN: Does the firm which leased the land and is going ahead with construction have more buildings to construct, or is that it?

Mr. GORDON: No, there are more buildings to be constructed. Terminal Centre Corporation, that is the name of the developer is now negotiating with respect to dividing and subleasing the property for the purpose of a large supermarket and other commercial establishments around the station area when the area is cleared, and we are hopeful that such development will proceed.

Mr. CROSSMAN: That would cover land left vacant by the destruction of old buildings?

Mr. GORDON: Yes, that is the intention. That is what we would like to see. Whether it works out, and whether the people concerned are prepared to put their money into it and go through with it is the question.

Mr. CROSSMAN: There is vacant land available?

Mr. GORDON: Yes, and it is under discussion now.

Mr. HORNER (*Acadia*): I have one more question. You have been very patient at other times, Mr. Chairman. I wanted to get it clear in my mind concerning the Saskatoon deal. Am I correct in saying that the city paid \$2,600,000 for the removal of the tracks and the use of one bridge, I think?

Mr. GORDON: It was for all the agreement that I outlined. It was for the whole package.

Mr. HORNER (*Acadia*): Yes, but in a sense you have most of the land left?

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): So in a sense this is what the city paid in order to alleviate a traffic problem, \$2,600,000, and the use of one bridge. I am generalizing quite a bit here.

Mr. GORDON: This compensated us for relocation to a new point.

Mr. HORNER (*Acadia*): It was a really good deal on your part?

Mr. GORDON: I think so.

Mr. HORNER (*Acadia*): You realize that Saskatoon is the third largest growing city in Canada, but they would not have that kind of traffic problem for some years to come.

Mr. GORDON: They think so. This question was thoroughly debated in council, and as a matter of public information, over a long, long time, and it was approved by all concerned as being a good deal.

Mr. HORNER (*Acadia*): I think you made a good deal, but I do not think that the city did.

Mr. GORDON: Thank you. Put that on *Hansard*, please.

Mr. STENSON: Have you any plans for development at Peterborough?

Mr. GORDON: I could not answer offhand. I would have to check the records. I do not recall any Peterborough development at the present time.

Mr. DEMCOE: There is not too much, just the station area and the right of way through the community.

Mr. STENSON: Have you bought property outside of Peterborough?

Mr. DEMCOE: Not that I know of.

Mr. STENSON: If the Canadian Pacific had bought property would you work with them in a development there?

Mr. GORDON: It would depend on what it was.

Mr. STENSON: I suggest it might be to take the central station out of the centre of the city. We have a small city with perhaps 150 level crossings.

Mr. GORDON: It would depend entirely on what the proposal was. I would not like to say offhand.

Mr. STENSON: There is land being purchased just outside the city, and I understand the Canadian National Railways are purchasing it.

Mr. GORDON: I do not recollect it, but it could be.

Mr. STENSON: Do you work with the Canadian Pacific in these projects around small cities?

Mr. GORDON: I cannot remember a case where it has been feasible. But certainly there is no policy objection to it. Whenever a joint interest is involved, certainly we would work jointly with the Canadian Pacific.

Mr. SOUTHAM: I have just one question to ask for general information under real estate. We have heard recently about a proposal to remove the Union Station at Ottawa to some other area. Are you co-operating with the Canadian Pacific in this project?

Mr. GORDON: Yes. It has all been worked out under the direction of the federal government. The relocation comes about in connection with the national capital development plan of the government over many years, through their agency, the federal district commission. I believe it is now known as the national capital commission. They have developed a plan which involves both the Canadian National and the Canadian Pacific, and the station is to be relocated. The plans have been agreed to.

Mr. SOUTHAM: Is there any time set for completion of this plan?

Mr. GORDON: It is intended to be completed before the centennial year anyway, about 1966. It is part of the centennial approach.

Mr. SOUTHAM: Thank you.

Mr. BROWN: There have been some questions asked about real estate development. I would like to ask a question about industrial development.

The CHAIRMAN: Very well.

Mr. ROCK: No, not unless there are no more questions on real estate.

Mr. LLOYD: I suggest that we now go to the subject of industrial development. I have no further questions on real estate.

The CHAIRMAN: I sense the feeling of the committee. Very well, Mr. Brown.

Mr. BROWN: Can you tell me whether there is railway development planned at Brantford, Ontario, at the present time?

Mr. MILLAR: No, no. That is a depressed area.

Mr. GORDON: The railway developments we refer to are not really railway developments. We are merely speaking of 356 plants of various types of operation which have located at points adjacent to our lines. That is all. They are not our developments.

Mr. BROWN: Do you mean that they are municipal developments?

Mr. GORDON: No, private companies, factories, manufacturing plants, warehousing, or anything of that sort. Through our Industrial Development Department we try to induce people. If we hear of someone who is thinking of relocating his plant, or going into a new business. If we hear about it we call upon him and endeavour to persuade him that location adjacent to the Canadian National is the best place for him. But it is entirely his development and not ours.

Mr. BROWN: Have you done any of that work in Brantford, Ontario, and suggested industrial development to firms there?

Mr. GORDON: I could not answer that specifically. I would have to look at my files again. But it is a regular service offered to any person.

Mr. BROWN: Has there been a private complex established there in 1963, do you know, approaching new industrial firms?

Mr. GORDON: In Brantford?

Mr. BROWN: Yes.

Mr. GORDON: Do you know, Mr. Demcoe?

Mr. DEMCOE: No, I have no information about that here.

Mr. GORDON: We have mentioned in our report that we have provided 248 private sidings for these new plants and expansions. I do not have the list of where they are at the moment. We service Massey-Ferguson plant near Brantford.

Mr. BROWN: Yes.

Mr. GORDON: That is a good example. Some years ago Massey-Ferguson was considering locations at four, five, or six different places, and through our efforts—mind you, we cannot prove it—we approached them along, I am sure, with our competitors, and we showed them the advantages which were theirs by such a location adjacent to our line. I would not claim credit for it, but that is the direct result of it. It certainly was significant that they should decide upon Brantford after we talked to them.

In our Industrial Development Department we have a service whereby we analyse almost any place in Canada to which we provide service, and we give information about the characteristics of that particular place. It may be as to the availability of labour, as a source of good water, the availability of wood, or it might be anything affecting that particular area. Then when we hear of people looking for a location, we get in touch with them and provide a brochure giving all the available information that we can about particular areas that we have in mind.

Mr. BROWN: Do you find that many industrial firms are making use of your facilities?

Mr. GORDON: Yes, we have quite a number of requests along that line.

The CHAIRMAN: Does that conclude questioning on the paragraph "industrial development"?

Mr. LLOYD: No, I have been waiting for an opportunity.

The CHAIRMAN: Very well, Mr. Lloyd.

Mr. LLOYD: My questions previously had to do with real estate.

The CHAIRMAN: Do you wish to put more questions on real estate?

Mr. LLOYD: I wish to put questions concerning industrial development. I noted in the report, Mr. Gordon, that the "Canadian National continued to provide existing and prospective customers with a comprehensive industrial location service aimed at attracting new resource, industrial and commercial development in areas served by the system." In this field of industrial development you of course would be looking also towards generating railway traffic. Do you endeavour to generate traffic through promotional work abroad in the Canadian National Railways?

Mr. GORDON: Abroad?

Mr. LLOYD: Yes.

Mr. GORDON: In the United States, for example?

Mr. LLOYD: Or Great Britain or France?

Mr. GORDON: Yes, wherever we hear of an interest being expressed, we have through our various offices abroad a means of keeping in touch with it.

Mr. LLOYD: Does the Canadian Pacific have an advantage over you in that respect?

Mr. GORDON: One fine example, as Mr. Vaughan has reminded me, is the plant at Truro, the carpet plant there, which came about as a direct result of our talks with the people concerned.

Mr. LLOYD: You mean that it came about through the promotional efforts of the Canadian National?

Mr. VAUGHAN: We think so in this case, but we do not claim all the credit. There was something done by our people in London.

Mr. LLOYD: You will agree that I was correct in the way it was said. May I ask if Industrial Estates entered into this deal?

Mr. GORDON: We were in contact with them. We talked to them and demonstrated that Truro was a good place. We gave them all the information that we could, and some time after we had done that, whether there was somebody else or not, I do not know—

Mr. VAUGHAN: Industrial Estates in Nova Scotia of course had a lot to do with it.

Mr. LLOYD: Does the Canadian Pacific have an advantage over you in generating traffic since they operate the Canadian Pacific Shipping Lines?

Mr. GORDON: Yes, I would say perhaps, but again perhaps not as much as might appear to be the case, because we have close contact with other shipping lines, and it may be for that reason, through those contacts, that we do just as well. But I think you could take it as a superficial assumption that because Canadian Pacific run their own shipping lines they get a measure of traffic to a greater extent than we do.

Mr. LLOYD: Have you ever attempted to make some kind of agreement with the shipping lines?

Mr. GORDON: Oh, yes, we have agreements with various lines.

Mr. LLOYD: Do these agreements provide for the payment of subsidies toward their operation?

Mr. GORDON: No. I am not aware of any in that regard. These are simply business associations whereby they direct traffic to us and we direct traffic to them.

Mr. LLOYD: Recently I made an inquiry directly to your office in Montreal through the Department of Transport. I believe many years ago there was a payment of \$100,000 and whether it was per annum or not I do not know.

Mr. VAUGHAN: I answered that letter.

Mr. LLOYD: The payment was made to the Cunard company.

Mr. VAUGHAN: I answered the letter to which you are referring.

Mr. LLOYD: I do not know whether you answered it or not. I am only allowed to ask questions here.

Mr. VAUGHAN: All I am saying is that you said you directed a letter to us through the Department of Transport and I answered the letter. Mr. Gordon may not have seen the letter. That is all I am saying.

Mr. LLOYD: I do not care whether he saw it or not. If he wants to ask you to answer the question that is fine. I understand some years ago there was \$100,000 paid to the Cunard Steamship Company to maintain the traffic to Halifax; is that correct?

Mr. GORDON: I received no such letter. Do you remember Mr. Vaughan answering a letter you received along those lines?

Mr. VAUGHAN: Yes. I had an inquiry from the Department of Transport asking me to endeavour to look back in our old records to find out what this situation involved. We went back in our records to the 1920's.

Mr. LLOYD: We have established the fact that you are aware of this situation?

Mr. VAUGHAN: Yes, I am aware of it. I do not have the letter here. There are thousands of letters received.

Mr. LLOYD: Yes, and there will be thousands of questions until we get the right answers.

Mr. VAUGHAN: What is your question?

Mr. LLOYD: My next question is, as I understand from the correspondence, Mr. Vaughan, you are familiar with this subject?

Mr. VAUGHAN: I do not have the letter here. I went to quite a bit of trouble to get the information for you.

Mr. LLOYD: You do not recall any of it?

Mr. VAUGHAN: Yes, I do. I recall it but I do not have the letters here.

Mr. LLOYD: If you will just wait for the question you may be able to answer it.

Mr. VAUGHAN: Well, let's hear it.

Mr. LLOYD: Was there then a payment made to the Canadian Pacific Railway in the form of an annual subsidy to produce traffic?

Mr. VAUGHAN: This situation was back some time ago, as I remember it, and if you have the letter there perhaps I can refresh my memory.

Mr. LLOYD: I have not got the letter. I am not spying on you, I am looking for information.

Mr. VAUGHAN: Let us have your question and I will endeavour to answer it. If I cannot do so I will get the information over night and give it to you.

Mr. GORDON: I have not heard the question yet. I do not know what your question is.

Mr. LLOYD: I am trying to establish whether anywhere in Canada or abroad today you do make such payments, as you did years ago, to steamship lines for the purpose of maintaining service to particular points at the end of your lines in an attempt to develop traffic of an international nature.

Mr. GORDON: I do not think so.

Mr. VAUGHAN: This information is part of history and goes away back.

Mr. LLOYD: You do not do that today in any event; is that right?

Mr. VAUGHAN: I do not think so. We do have an association with Cunard.

Mr. GORDON: Yes, we have an arrangement with Cunard and we have an arrangement with the Manchester line. When we were operating the Canadian National West Indies Steamships there were certain subsidies that were payable in that connection. I cannot recollect any direct payments such as you mention for the purpose of obtaining traffic. I am not aware of any.

Mr. LLOYD: Perhaps Mr. Vaughan could advise you of the letter he indicated he wrote covering the history.

Mr. VAUGHAN: I do not have it with me.

Mr. LLOYD: Surely I am entitled to say that there was such a practice in the past in view of the fact I have been informed of this by your department?

Mr. VAUGHAN: That is correct.

Mr. LLOYD: I was so informed through the Department of Transport and I am simply asking you whether that practice is being continued today.

Mr. VAUGHAN: Not that we know of, no.

Mr. LLOYD: I prefaced this remark by asking you whether the C.P.R. had an advantage over you in the generation of rail traffic because it operated steamship lines, and your answer was that you thought generally one would say this was so. Did you ever contemplate perhaps adopting policy similar to the Canadian Pacific Railway, establishing steamship line services which would generate traffic on the railways?

Mr. GORDON: Yes.

Mr. LLOYD: Is that economically feasible?

Mr. GORDON: We do not think so.

Mr. LLOYD: You have made extensive studies before establishing that fact?

Mr. GORDON: Yes.

Mr. LLOYD: You compete with C.P.R. operations in Saint John?

Mr. GORDON: Yes.

Mr. LLOYD: The C.P.R. ships call at Saint John?

Mr. GORDON: Is that an assertion or a question?

Mr. LLOYD: I presume a good deal of traffic you carry to and from Saint John is carried by C.P.R. ships.

My next question deals with the paragraph headed "Industrial Development" in which you state there are 356 resource developments, manufacturing plants and major warehousing and distributing facilities in locations served by the Canadian National freight services.

You mentioned a minute ago there was one in Truro. How many of these 356 developments took place in Nova Scotia, for example?

Mr. GORDON: I have the figure for the Atlantic region, which shows 35. I might as well complete it all.

Mr. LLOYD: Do you have them by regions?

Mr. GORDON: Yes, I do. The figures are 35 in the Atlantic; 89 in the St. Lawrence Region; 88 in the Great Lakes Region; 52 in the Prairie Region; 92 in the Mountain Region, for a total in Canada of 356; 42 in the Grand Trunk Western Region, for a total for Canada and the Grand Trunk Western Region of 398.

Mr. LLOYD: I suppose many of these were developed in association with others, that you made your contributions to the effort to bring about these developments and these were not all solely yours?

Mr. GORDON: No, I have not claimed this is solely as a result of our actions. We make efforts to interest people to come on our line to the fullest extent we can.

Mr. LLOYD: Do you have a research department which inquires into the potential industrial developments of any region or do you rely mainly on promoting the information about the region you are serving?

Mr. GORDON: If I might read the first sentence in our report at page six, it says:

Canadian National continued to provide existing and prospective customers with a comprehensive industrial location service aimed at attracting new resource, industrial and commercial development in areas served by the System.

Mr. LLOYD: Yes. In respect of this comprehensive service which you provide I was wondering if you included research studies which would indicate potential industrial possibilities?

Mr. GORDON: Well, that is the purpose of it. There is a market research associated with this, and we will try to produce any information we can to encourage people to locate on our lines or adjacent to them.

Mr. LLOYD: I suppose a good deal of this potential data you need is available to you from other sources as well?

Mr. GORDON: Oh, yes, it comes through all sorts of sources.

Mr. LLOYD: And, you attempt, through this department, to co-ordinate this information?

Mr. GORDON: Yes. This information comes through trade journals, municipalities and all sorts of things.

Mr. LLOYD: Do you promote interest in this abroad?

Mr. GORDON: Yes.

Mr. LLOYD: As well as in Canada?

Mr. GORDON: Yes.

Mr. VAUGHAN: There was such a survey done in Halifax, which you may remember.

Mr. LLOYD: Which one was that?

Mr. VAUGHAN: One of these industrial surveys we are speaking of. It is part of the public record down there and I would be glad to send you one if you want to read it.

Mr. LLOYD: I have seen the one you are talking about but it is not it that I was questioning; it does not go as far. It is a general statement.

Mr. VAUGHAN: I was wondering whether that was what you are talking about.

Mr. LLOYD: This is a well put together document, and contains a statement of opportunities that exist within established operations.

Mr. GORDON: Yes.

The CHAIRMAN: Would you proceed, Mr. MacEwan.

Mr. MACÉWAN: I believe a recent one was done in the Pictou county area.

Mr. GORDON: Yes. There have been quite a few done in Nova Scotia.

Mr. LLOYD: I was wondering how effective they are?

The CHAIRMAN: Shall we carry this item?

Some hon. MEMBERS: Carried.

The CHAIRMAN: Tomorrow we will meet at 10 o'clock.

Mr. HORNER (*Acadia*): How about 9:30, Mr. Chairman?

The CHAIRMAN: No, we have a steering committee meeting at 9:30.

The committee adjourned.

HOUSE OF COMMONS

Second Session—Twenty-sixth Parliament

1964

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STANDING COMMITTEE

ON

**RAILWAYS, CANALS AND  
TELEGRAPH LINES**

*Chairman:* JEAN T. RICHARD, Esq.

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

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THURSDAY, JUNE 18, 1964

FRIDAY, JUNE 19, 1964

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Respecting

**ANNUAL REPORT—CANADIAN NATIONAL RAILWAYS**

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WITNESSES:

The Honourable John Whitney Pickersgill, Minister of Transport.

From the *Canadian National Railways*: Messrs. Donald Gordon, President;  
R. T. Vaughan, Secretary; J. L. Toole, Vice-President, Accounting  
and Finance; J. W. Demcoe, Vice-President, Transportation and  
Maintenance.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1964

STANDING COMMITTEE  
ON  
RAILWAYS, CANALS AND TELEGRAPH LINES

*Chairman:* Jean T. Richard, Esq.

*Vice-Chairman:* James Brown, Esq.

and Messrs.

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Armstrong	Godin	Marcoux
Balcer	Granger	Matte
Basford	Grégoire	McBain
Beaulé	Guay	McNulty
Béchar	Hahn	Millar
Bell	Horner ( <i>Acadia</i> )	Olson
Berger	Howe ( <i>Wellington-</i>	Orlikow
Boulanger	<i>Huron</i> )	Pascoe
Brown	Irvine	Prittie
Cadieu	Kennedy	Rapp
Cameron ( <i>Nanaimo-</i>	Kindt	Regan
<i>Cowichan-The Islands</i> )	Korchinski	Rhéaume
Cantelon	Lachance	Richard
Cantin	Lamb	Rock
Cooper	Laniel	Ryan
Cowan	Latulippe	Southam
Crossman	Lloyd	Stefanson
Crouse	Lessard ( <i>Saint-Henri</i> )	Stenson
Émard	Macdonald	Tucker—60.
Fisher	MacEwan	

(Quorum 12)

Maxime Guitard,  
Clerk of the Committee.

## MINUTES OF PROCEEDINGS

THURSDAY, June 18, 1964.

(6)

The Standing Committee on Railways, Canals and Telegraph Lines met at 10:00 o'clock a.m. this day. The Chairman, Mr. Jean T. Richard, presided.

*Members present:* Messrs. Balcer, Beaulé, Bell, Brown, Cadieu, Cantin, Cowan, Crossman, Crouse, Fisher, Grégoire, Guay, Horner (*Acadia*), Howe (*Wellington-Huron*), Irvine, Kennedy, Lamb, Lloyd, Lessard (*Saint-Henri*), Macdonald, MacEwan, Marcoux, Millar, Pascoe, Prittie, Regan, Rhéaume, Richard, Rock, Southam, Stefanson, Stenson (32).

*Also present:* The Honourable John Whitney Pickersgill, Minister of Transport.

*In attendance:* From the *Canadian National Railways*: Messrs. Donald Gordon, President, R. T. Vaughan, Secretary, J. L. Toole, Vice-President, Accounting and Finance, J. W. Demcoe, Vice-President, Transportation and Maintenance.

The Committee resumed consideration of the 1963 Canadian National Railways Annual Report, section intituled "Operations".

On motion of Mr. Grégoire, seconded by Mr. Beaulé,

*Resolved:* That section intituled "Operations" of the 1963 Canadian National Railways Annual Report be adopted as read.

Then the Committee began consideration of section intituled "Freight Service".

And the examination of the witnesses continuing, at 12:20 o'clock p.m. the Committee adjourned until 3:30 o'clock p.m. this afternoon.

## AFTERNOON SITTING

(7)

The Standing Committee on Railways, Canals and Telegraph Lines reconvened at 4:12 o'clock p.m. this afternoon. The Chairman, Mr. Richard, presided.

*Members present:* Messrs. Beaulé, Béchar, Bell, Cadieu, Crossman, Émard, Fisher, Horner (*Acadia*), Howe (*Wellington-Huron*), Irvine, Kennedy, Korchinski, Lachance, Lloyd, Lessard (*Saint-Henri*), MacEwan, Marcoux, Matte, Millar, Pascoe, Regan, Rhéaume, Richard, Rock, Stenson (25).

*In attendance:* The same as at this morning's sitting.

The Committee resumed consideration of section intituled "Freight Services" of the 1963 Canadian National Railways Annual Report.

On motion of Mr. Lessard (*Saint-Henri*), seconded by Mr. Beaulé,

*Resolved,*—That the Committee sit at 7:30 o'clock p.m. instead of 8:00 o'clock p.m. this evening.

On motion of Mr. Rock, seconded by Mr. Millar,

*Resolved*,—That section intituled “Freight Services” of the 1963 Canadian National Railways Annual Report be adopted as read.

And the examination of the witnesses continuing on section intituled “Passenger Services”, at 5:53 o'clock p.m. the Committee adjourned until 7:30 o'clock p.m. this evening.

#### EVENING SITTING

(8)

The Standing Committee on Railways, Canals and Telegraph Lines reconvened at 7:42 o'clock p.m. this evening. The Chairman, Mr. Richard, presided.

*Members present*: Messrs. Beaulé, Brown, Cadieu, Cowan, Fisher, Granger, Horner (*Acadia*), Howe (*Wellington-Huron*), Kennedy, Lachance, Lamb, Lloyd, MacEwan, Matte, Millar, Pascoe, Prittie, Rhéaume, Rock, Stefenson, Stenson, Tucker, Irvine—(23).

*In attendance*: The same as at this morning's and as at this afternoon's sittings.

The Committee resumed consideration of the 1963 Canadian National Railways Annual Report.

Sections intituled “Passenger Services”, “Telecommunications” and “Hotels” were carried unanimously.

On section intituled “Personnel and Labour Relations”, at 10:33 o'clock p.m. the Committee adjourned for lack of quorum, until 9:30 o'clock tomorrow.

FRIDAY, June 19, 1964.

(9)

The Standing Committee on Railways, Canals and Telegraph Lines met at 9:37 o'clock a.m. this day. The Chairman, Mr. Jean T. Richard, presided.

*Members present*: Messrs. Armstrong, Beaulé, Béchard, Bell, Cadieu, Cooper, Cowan, Crossman, Émard, Fisher, Granger, Grégoire, Horner (*Acadia*), Lachance, Lamb, Latulippe, Lloyd, MacEwan, Matte, Millar, Pascoe, Prittie, Rapp, Rhéaume, Richard, Rock, Southam, Stefanson, Stenson, Tucker—(30).

*Also present*: The Honourable John Whitney Pickersgill, Minister of Transport.

*In attendance*: From the *Canadian National Railways*: Messrs. Donald Gordon, President, R. T. Vaughan, Secretary, J. L. Toole, Vice-President, Accounting and Finance, J. W. Demcoe, Vice-President, Transportation and Maintenance.

The Committee resumed consideration of the 1963 Canadian National Railways Annual Report.

Sections intituled “Personnel and Labour Relations” and “The Outlook” were carried unanimously.

The complete 1963 Canadian National Railways Annual Report was carried unanimously.

The following were also carried unanimously; namely: The Canadian National Railways Auditor's Report to Parliament for the year ended on December 31, 1963; The Canadian National Railways Capital and Operating

Budgets for the year 1964. The Annual Report of the Canadian National Railways Securities Trust for the year ended on December 31, 1963.

Mr. Rhéaume moved, seconded by Mr. MacEwan,—That the Committee sit at 4:00 o'clock p.m. on Monday, June 22, 1964 to consider the Trans-Canada Air Lines Annual Report. The said motion was agreed to unanimously.

At 10:58 o'clock a.m. the Committee adjourned until 4:00 o'clock p.m. on Monday, June 22, 1964.

Maxime Guitard,  
Clerk of the Committee.

*(Please note, that all the evidence adduced in French and translated into English, for the sitting of June 19, 1964 was recorded by an electronic recording apparatus pursuant to a recommendation contained in the Seventh Report of the Special Committee on Procedure and Organization, presented and concurred in, on May 20, 1964.)*

The first part of the book is devoted to a general history of the United States from its discovery by Columbus in 1492 to the present time. It covers the early years of settlement, the struggle for independence, the formation of the Constitution, and the various wars and conflicts that have shaped the nation's history.

The second part of the book is a detailed account of the life and times of George Washington, the first President of the United States. It describes his military and political career, his role in the American Revolution, and his leadership of the young nation.

The third part of the book is a history of the United States from 1789 to 1861, covering the presidencies of George Washington, John Adams, and Thomas Jefferson. It discusses the challenges of building a new nation, the expansion of territory, and the growing tensions between the North and the South.

## EVIDENCE

THURSDAY, June 18, 1964.

(Text)

The CHAIRMAN: Gentlemen, we are now concerned with operations, but before proceeding I would like to remind you that we have three meetings today and the hope has been expressed that we may finish our business today. If we stick to our business and do not wander far afield we may be able to do so.

Mr. HORNER (*Acadia*): Do not look at me, Mr. Chairman!

The CHAIRMAN: I have been accused of allowing some members to run far afield. I think we can complete our business today if we stick to the pertinent matters. I hope by diligent attention to the matter before us, which is the annual report of Canadian National Railways, we can complete our work today, or tomorrow at the latest.

Our discussion now will be concerned with the item dealing with operations, on page six of the report. Are there any questions on this?

Mr. PASCOE: In relation to operations, the report speaks of the car repair shop under construction in Saskatoon. Will that accommodate the car repairs for a large part of the western area?

Mr. J. W. DEMCOE (*Vice President, Transportation and Maintenance*): That will take care of the running repairs of any cars. Any cars in bad order in the Saskatoon area will be repaired in this new shop we are building.

Mr. PASCOE: When you refer to the Saskatoon area, how large an area do you mean?

Mr. DEMCOE: I am referring to all trains coming in or going out of Saskatoon.

Mr. FISHER: With regard to operations, I would like to get into a subject which is familiar to you, Mr. Gordon, and to Mr. Demcoe; that is, the question of run throughs.

I had thought that as a result of what took place last August the plans regarding run throughs have been postponed rather indefinitely. Early last month I received word that one was planned with engine crews for Nakina and I have since, through railway union representatives, received a letter written by Mr. Warden from the office of Mr. Bloomfield, the manager for Capreol, Ontario, on May 21, 1964, to the General Chairman of the operating brotherhood. I would like to put on record a couple of paragraphs from that letter:

You will recall that at our meeting in Toronto, May 20th, the problem of the impending shortage of firemen at Nakina was discussed in some detail.

As you are aware, the only solution open to us within the current agreement is an application of article 39, rule A, as amended by memorandum of agreement signed at Montreal, Quebec, February 1, 1955 (referred to as the union dues agreement) which would force the senior demoted engineers on the promotion district to Nakina for as long as the shortage exists.

In our discussion it was recognized that forcing men to locations undesirable to them for indefinite periods of time imposes a hardship

on the men involved and creates an atmosphere not conducive to good labour-management relations.

We would like to propose an alternative that eliminates that hardship and at the same time provides a solution to the uncertainty surrounding the long term future of Nakina. The proposal in brief is that run through operation be gradually and progressively introduced between Hornepayne and Armstrong as attrition and/or increased traffic render the employees presently located at Nakina unable to handle it.

In other words, the men presently located at Nakina would remain at Nakina and be permitted to earn maximum monthly mileage, but work which they could not handle on a year round basis within mileage allowances would be manned by Hornepayne men from Hornepayne to Armstrong. Logically trains 1-2-9 and 10 would be introduced first with other trains following in order of preference working conditions as attrition at Nakina and/or increased traffic dictated.

There are several other paragraphs, but those are the ones I would like to have included in the record. That is signed by R. A. Warden, operations manager.

There are two factors involved in this, Mr. Gordon, about which I would like to know more. One is the whole question of the railway plans with regard to those parts of the system where there is a shortage of firemen and those parts of the system where there is a surplus; that is, what you plan to do about this, particularly from the point of view of bringing on your supply of engineers.

The second question is: Where do Canadian National Railways stand on run throughs, particularly for front end crews, on its whole system in western Canada and in the area I mentioned?

Mr. GORDON: This is one of the operational and transitional problems that is very live and arises, as you know, basically out of the new operating requirements that have emerged. We have put in the diesel locomotive and taken advantage of the resultant greater flexibility. We have been trying to work very closely with the labour representatives in each particular area, and our local officials have been trying to work it out on as reasonable a basis as possible but it is, as I say, a transitional problem that will eventually have to be met. With the advent of the movement of the crops, we held up the plans that we had for last year. We were so occupied with the new difficulties in regard to the movement of wheat that we just put the whole thing aside for that period, but it is something that will have to be worked out because we must arrange the operational aspects of it to fit the requirements of running the trains.

In regard to the supply of enginemen—I should say that they will not necessarily come from the firemen. We will have a system of training that will produce engineers for us as and when required. But since this is an operational matter, Mr. Demcoe, perhaps you can add something to what I have just said.

Mr. DEMCOE: I think you have covered the situation.

Mr. FISHER: At certain points in your system I understand almost half the trains are running without firemen now. This is part of the general agreement. However, at other places, there is a surplus. There are firemen available to be called. In the Nakina situation, you have the shortage of firemen being put forward as one of the reasons for introducing a run through. Obviously that shortage could be met very easily by allowing some of the firemen from some of the surplus areas to be transferred up there.

I gather from my conversations with the employees—and, as you know, these are informal, they are random, and there is nothing coherent about them—I certainly sense that their view is that they would much prefer this to having a run through.

Mr. DEMCOE: I think this situation at Nakina is where they are now requiring enginemen. There are insufficient enginemen at Nakina. In order to get them we are required to send our firemen who are classed as enginemen at Toronto, Allandale and Capreol to Nakina. These individuals, or many of them, do not want to go to Nakina for two, three or four months.

Mr. FISHER: But then the people who are at Nakina do not want to find themselves in a run through either, and here again we are back to the question I brought up repeatedly, Mr. Gordon. In these smaller communities—and Biggar is a good example, and Nakina—there is a feeling that the community situation and the real estate situation of the employees have played no part in the considerations of management in these terms. I do not know what is the best solution for this. You want to take advantage of the equipment in the new processes you have introduced. It is understandable that the men object when it is going to mean personal loss and hardship for them, and that is the reason why they might perhaps drag their feet. You know, I imagine that if your run throughs are announced again for August of this year—and I am sure Mr. Cooper and other members of parliament from the areas concerned will tell you just what will happen—cries will go up and delegations will come down here and we will go through the whole routine again. I would like to know why this whole question of run throughs cannot be approached on a more thorough-going basis than that on which you have dealt with it at the present time.

Mr. DEMCOE: The situation is actually different at Biggar from that at Nakina. Biggar is a turnaround point, and we have accommodation for the men there. Nakina is a home terminal and the people who work out of Nakina have their own homes, as you have just stated. There are two different problems there.

Mr. FISHER: There are two different problems, but from the railroader's point of view it is the same; that is, it is the resistance to the run through.

Mr. DEMCOE: No.

Mr. GORDON: Not in every case. I have been into this matter and I have had a number of discussions about it. It is not a problem that will yield itself to an over-all solution, and it has to be worked out pretty much in terms of the local facts. In some cases we have very little trouble, and the men are quite happy to make the change because in some cases it gives them an advantage. One fellow may get an advantage, and another fellow may not. It is one of those very difficult situations that we just have to keep pecking away at in the light of the circumstances at the different places involved. They are not the same kind of run throughs either, as I understand it. There are different circumstances in that respect, and there are different circumstances applying to the home terminal, and things of that kind. We had a great deal of difficulty at Redditt some years ago, but that has all been worked out and the men affected are quite happy with it; they prefer their present situation to the one that existed before.

As in all these matters of change, the first reaction is always difficult because the men are apprehensive when there is a change in regard to their living and working conditions. We find that when we are able to get the system working, they see certain advantages that just had not occurred to them before. I do not think I can give you any better answer than to say it is one of those problems that is best left in the hands of the local officials and the local union people, and it will gradually work itself out. It will be a continuing situation in regard to individual situations that will be difficult.

Mr. FISHER: I will put it to you from the selfish point of view. I would rather see the run through go from Nakina westward to Sioux Lookout. Can you tell me why the decision was made to develop the run through on the basis of Hornepayne to Armstrong?

Mr. GORDON: That is exactly what I mean; we have to get the individual facts, and I am afraid I cannot do it. It will be the local officials there who will give us the details, and we would have to look at each situation depending upon its own particular set of facts. Do you happen to know this particular one, Mr. Demcoe?

Mr. DEMCOE: One of the main reasons is that there are two agreements. There is the east agreement and there is the west agreement, and the dividing line is at Armstrong. That is one of the main difficulties. By having the crews run from Hornepayne to Armstrong, we have it all in the eastern territory and covered by the eastern agreement.

Mr. FISHER: I am vitally interested in this because it means the economic well-being of one of the communities in my riding. If the seniority problems in connection with the western and eastern divisions could be worked out, it would be greatly to the advantage of Nakina. There is no real economic alternative for those people there, or for the community which has its investment there, and there would be great advantages to be snatched from it. I do not see that it would harm the other places involved—Hornepayne and Sioux Lookout.

Mr. DEMCOE: The discussions our area people have had with regard to Armstrong and Nakina as the run through points resulted in the discovery that apparently the employees in those territories prefer the run through Nakina to Armstrong.

Mr. FISHER: I take it, Mr. Gordon, from what you have said, that your policy now is to approach these questions strictly on a regional basis rather than the basis of a year or two years ago, which was an over-all change at one time.

Mr. GORDON: That is right.

Mr. FISHER: Why did you change the policy?

Mr. GORDON: Because of the fact that when we tried to do the thing that you suggested earlier—to have an over-all policy—we ran into local situations that did not yield to an over-all solution, and it was far better, we found, to use a transitional period to have discussions with the union representatives and the men to apply specifically not only to the point itself—the operating condition of that point—but to the men themselves.

Mr. FISHER: Can you tell me candidly whether, in terms of the agreements that exist at the present time, you can put these changes through unilaterally?

Mr. GORDON: Yes, everything we are doing is within the scope of the wage agreement affecting the particular men. In each case we scrupulously observe the over-all agreement as it affects transfers, seniority, and so forth, anything affecting the men.

Mr. FISHER: When you make a move from London of 400 employees, that is a large blow to a community in terms of income and everything else, but London is a large community. However, these small communities depend almost entirely upon the railway. Nakina was created by the railway and the whole community was established, as it were, as a company-created organization.

Mr. GORDON: That is perfectly true and, as I have said many times, all these situations have arisen out of the impact of the diesel locomotive, and the changes which resulted from giving up steam locomotives. The fact is that the steam locomotive called for an operating situation where we had terminals almost every 130 to 150 miles. If we do not deal with the situation now, we will never be able to readjust the railway to the whole impact of the change to diesel.

Mr. FISHER: But have you no possibility at all of introducing the principle of some kind of compensation or some kind of assistance for these employees? Let me give you an example of one engineer I know who would be affected by this. He has a home in which he has put about \$8,000 to \$9,000—possibly a little more, but that is my estimate of it. The value of that place, if the running crews are moved out of there, tumbles down to about \$2,000 because there just is no other basis. Now the main difficulty, the main resistance, really, hinges around the very substantial economic loss that these people suffer, and yet there has never been any indication on the part of Canadian National Railways that they are prepared to look at this solution.

Mr. GORDON: That question has been talked about again and again. It is almost impossible to find a principle that will meet a situation of that kind because every year there are differences in communities that might give rise to claims that people have been affected economically, and the value of property, and so forth, and I just do not know where we draw the line. Moreover, the general questions, as you know, has been one of great discussion in regard to amendments to the Railway Act, and so forth.

Mr. FISHER: As you know, this committee last year approved the principle.

Mr. GORDON: That is right.

Mr. FISHER: As you know, this committee approved the principle last year.

Mr. GORDON: I just do not know how to deal with it apart from meeting the situation as a general railway industry matter. I suggest that there cannot be special consideration in connection with the C.N.R. only.

Mr. FISHER: I would take it then from your remarks that if it were introduced as a principle, with the force of a statute approved by the House of Commons, you would be prepared to work within that framework.

Mr. GORDON: We will always obey the law if it becomes effective, but you must remember this is a general question which raises a very important matter of principle on whether legislation of that type to correct inequities should be applied to the railway industry only, or to have the general principle apply to other industries as well.

Mr. FISHER: I am very pleased the Minister of Transport is here because we can ask him what has happened to the recommendations of last year's committee on this matter.

Hon. J. W. PICKERSGILL (*Minister of Transport*): My attitude is that the matter is under very active consideration at the present time.

Mr. HORNER (*Acadia*): Is legislation being proposed and prepared by the government along these lines?

Mr. PICKERSGILL: On that point I would say I would feel that to prepare any more legislation than we have already prepared for the present session of parliament before we see some legislation disposed of that is now before us would seem almost to be an academic exercise. The principle involved here is so far-reaching that I think it would be very difficult to contemplate applying very easily to the railways a principle that was not going to be applied to other aspects of the economy. This is a consequence of automation. It is true that there are many aspects of labour relations in the economy that are not under federal jurisdiction, where parliament could not legislate, but there are quite a number of aspects of the economy besides the railway that do come under federal jurisdiction. I think most of us are acutely conscious of the fact that the railways are not always in the most favourable economic position among the various carriers at the present time. I would ask myself a basic question which every member of parliament has to ask himself, whether

we feel that we should attempt to make the shippers pay for something. If it is to be a social policy, perhaps it should be paid for by the taxpayers. These are some of the problems that arise in this field.

Mr. HORNER (*Acadia*): This was dealt with a year ago in committee, and I take it from your remarks that you are opposed to the recommendations of the committee.

Mr. PICKERSGILL: No, I am not. I did not have the advantage of being a member of the committee at that time. I did not have the advantage of studying it as members of the committee have. However, as Minister of Transport I do think it is my duty to study this question and to study it very thoroughly, and that is what I am trying to do. But, I have always felt it was unwise for anyone to express a final opinion on something until he had formed that opinion. Speaking for myself, I have not formed a final opinion on the most appropriate way of dealing with this problem up to now, and certainly the government has not.

Mr. FISHER: Could I ask you a question? We tabled a report on this last year, but it was too late in the session for action to be taken on it. It could not even be moved technically, I think. If the committee dusted off that report and presented it again, could consideration be given to it?

Mr. PICKERSGILL: I think the committee is not an autonomous body—it is a committee. It would have to have instructions or directions from the house.

Mr. FISHER: Would you be prepared, as the government minister with initiative in this regard, to give us the chance to reintroduce it?

Mr. PICKERSGILL: I do not think, Mr. Fisher, it would be quite right for me as the only member of the government, on a matter that is not just transport policy but is a matter of broad economic policy, to express an opinion without consulting my colleagues.

Mr. FISHER: I would agree with that. Where do you and your colleagues stand at the present time with regard to the recommendation of this committee?

Mr. PICKERSGILL: As I told you, and perhaps I should have stopped right there, the matter is under consideration.

Mr. FISHER: That was last December; it is now six months later.

Mr. PICKERSGILL: The matter is still under consideration.

Mr. FISHER: Mr. Chairman, you can see from this long interval that has elapsed that we are willing to give the government and the ministry ample opportunity to consider this, but how long does serious consideration have to go on?

Mr. PICKERSGILL: That depends on whether I would think one feels at a certain time, or the government feels at a certain point, it has reached a viable conclusion. I think it would be much better, in this as in other fields—and I found this in the experiences of a long and misspent life—to make up your mind right rather than to make it up quickly and find you are wrong.

Mr. FISHER: Let us come back to Mr. Gordon.

Mr. HORNER (*Acadia*): Sixty days of decision?

Mr. PICKERSGILL: Almost 60 years. I will be 59 next week.

Mr. FISHER: To come back to Mr. Gordon on this question, it was really the opinion of the committee, the core of the committee's attitude, that it would be much better if these problems could be settled within the framework of management and union agreement.

Mr. GORDON: Yes.

Mr. FISHER: But the union witnesses we heard almost unanimously informed us they found it impossible, because of the attitude of management, to bring these kinds of questions within the scope of discussion.

Mr. GORDON: Perhaps I can help you in this. I do not know if you are aware of it but I am reminded here that the Department of Labour has established an advisory committee on technical change, and the first study they have deals with the technical change in skilled manpower. This committee is made up of personnel from the Department of Labour and representatives from industry, labour itself, and the universities. The purpose of this organization is to study the effects of technical change in major Canadian industries in all respects. On that committee senior officials of both railways have been appointed by the Department of Labour, and they are qualified men, and, as I have said, there are men from all branches of industry and labour. This committee is very actively at work. The question therefore is not being ignored; it is the subject of a very intensive study, and, as I say, they brought in people from the universities to get the scientific approach to it also. It is a major social question that reaches far beyond the narrow confines of the railway industry itself. That is why I am hesitant to pinpoint it in connection with the Canadian National. It is a much broader question than its effect on the Canadian National.

Mr. FISHER: But on this question of bringing these kinds of problems within the union management relationships, you have just completed a round of signings a month or so ago with the running trades. You are now in a similar situation with the non-ops. At least in the non-ops. situation you have a job security fund even though there is disagreement about it.

Mr. ROCK: Mr. Chairman, I have to interrupt. We are now on operations.

Mr. FISHER: What do you think this is?

Mr. ROCK: Yesterday we had the same thing, Mr. Chairman. Mr. Fisher yesterday squeezed in questions on labour relationships, and he is doing it again when we are dealing with operations. Let me point out that we have an item here called "personnel and labour relations" when he will be able to bring up these subjects. I plead with you, Mr. Chairman, that there be some sort of a rule down here that we stick to this report in the proper manner.

The CHAIRMAN: Yes, Mr. Rock. I will ask Mr. Fisher to relate his questions to the item under discussion.

Mr. FISHER: My question arose out of operations.

The CHAIRMAN: Mr. Fisher, I do hope we are not going into details of labour relations.

Mr. FISHER: This is germane to operations.

Mr. ROCK: What is Mr. Fisher going to do when we come to personnel and labour relations? Is he going to start it all over again?

Mr. FISHER: I am not going to start all over again. If you had been around in this committee you would have noticed that I do not go in for repetition. Once we get this out of the way, I will leave it alone.

Mr. ROCK: Maybe this is the reason why I bring this to your attention, Mr. Chairman.

The CHAIRMAN: I feel this was properly brought up, and I do not think Mr. Fisher intends to go into details of contracts.

Mr. FISHER: We had a committee last year that repeatedly dealt with the question of operations and the effects of changes on operations. It is not written into the report exactly, but in effect the report suggests that if this cannot be handled by the union-management relationships then we may need something else. I will ask Mr. Gordon the following question: We have had two rounds

of negotiations, one on ops. and one on non-ops., which have been signed. I understand that no development at all took place within that area.

Mr. GORDON: That is not strictly correct, Mr. Fisher. In the negotiations which we have with the running trades—which is what you have particularly in mind—this comes under the general question of work rules, and the agreements, each one of them, have a very complex set-up in respect of the impact of different kinds of work rules. In our negotiations we do include discussion in respect of any requests having to do with work rules, and it is discussed at that time. Now, the fact that we have signed agreements quite recently with all our operating trades is the best indication I can give you that the unions are satisfied with the attitude as of now because they have signed an agreement covering some changes in the work rules. I cannot recall what they are because they are very complicated. However, there were detailed and intensive discussions of the work rules. We finally reached a meeting of minds, and we have renewed the agreement. That is where the matter stands at present. It is always open to them, when a wage agreement is open for discussion, to raise once again in detail any portion of these work rules that they want to bring to our attention.

Mr. FISHER: Could I ask Mr. Pickersgill a question relating to this subject? Mr. Gordon has indicated that there is a Department of Labour task force of some kind studying this. Would the minister see any prospect that this committee, in view of what it studied last year, could have the Department of Labour group appear before it or could have some kind of meetings with it to discover just how they are approaching this specific problem?

Mr. PICKERSGILL: I believe the House of Commons has a committee on industrial relations, and I would have thought that if one were going to approach this question primarily from that point of view, that would have been a more appropriate committee before which to have the matter brought. It is a matter that I feel the Minister of Labour is much more competent to deal with than I am, and he has officials to deal with it who are more competent than I would be or any of the officials in my department, because in essence it seems to me that though we have been considering this in relation to the railways, it is the social impact of automation, and I have the impression this is about the biggest social problem we are faced with in the western world at the present time. I think it certainly merits the most thorough study. However, whether we have really reached the point where there is enough hard information about this to make it worth while having it go before a committee at the present time is something on which I do not think I could give an intelligent opinion.

Mr. FISHER: Are you prepared to look at the matter to see what way we can approach it? Do you accept that responsibility?

Mr. PICKERSGILL: I have always liked to think I was one of the more open-minded members of the House of Commons.

Mr. GRÉGOIRE: So you admit you did not find a solution to the automation problem?

Mr. PICKERSGILL: No, we did not.

Mr. GRÉGOIRE: Maybe we could make some suggestions, because we think we have the solution. Ask Mr. Gordon, he was the deputy governor of the Bank of Canada for a while.

Mr. FISHER: I would take it from what Mr. Pickersgill said that he, as the minister responsible in this area, is prepared to consider suggestions in which the House of Commons in one of its committees can carry on further discussions of this problem in relation to the Department of Labour studies that are going on.

Mr. PICKERSGILL: I would think it would be a very reactionary attitude to take a different view.

Mr. HORNER (*Acadia*): Mr. Chairman, Mr. Fisher has covered many of the questions I would have liked to ask in regard to run throughs. To sum it up, would you agree then that the run throughs in the western region will now be taken one at a time in a much slower way than what was attempted last year?

Mr. GORDON: Yes, and dealt with specifically by the local officials.

Mr. RHÉAUME: I have a supplementary question which I should like to ask while the Minister of Transport is here. It is in an area raised by Mr. Fisher. Mr. Pickersgill said it would be more or less academic to consider putting into any kind of legislation the recommendations of this committee of last year because of the volume of railway legislation that is already before the house. I raise this supplementary question at this point because the *Globe and Mail* says that the legislation the minister has prepared to be considered first is going to be shelved so that we can keep talking about the flag. I am wondering if the minister can confirm that. Could what he has prepared be shelved?

Mr. PICKERSGILL: I would think, Mr. Chairman, with respect, that perhaps we should stay in the committee within our terms of reference, and that the broad program of legislation in the House of Commons I do not think was referred to this committee.

Mr. RHÉAUME: I think, that when the minister says it is academic for us to ask questions about when the legislation is going to be prepared which this committee recommended, and he give us a reason, it is fair for us to ask him when it is going to be cleared.

The CHAIRMAN: The minister answered this question.

Mr. LLOYD: I have a supplementary question on this, and a suggestion. I think it has been clearly stated, and all are agreed, that the measures suggested by Mr. Fisher go into various groups of the political and economic system. We may be satisfied if this committee were to draw attention to the evidence of the people working on this, and this could be forwarded to the appropriate study committees. We could at least do that, that is point out today the particular problem of the railway employees, which is a good illustration, and what happens when there are major changes in some sector of the economy employing many people, and then put it forward as a matter which requires attention and study by the government. That would be proper procedure for this committee.

Mr. MACEWAN: I wanted to ask Mr. Gordon a question in relation to the problem of revisions of maintenance operations which is current throughout Canada and particularly in this case in the Atlantic area where changes were brought about and scheduled for the Atlantic area. The Minister of Transport was asked a question in the House of Commons on May 11. His parliamentary secretary brought forward this answer. It reads as follows:

This reorganization, which contemplates the extension of territories currently worked by track forces, decreasing the number of gangs and increasing the size of some crews, will ultimately result in a reduction of staff requirements.

I was wondering perhaps if Mr. Gordon could give us a few more details in that connection and tell us what actually has been carried out in the Atlantic area.

Mr. GORDON: Mr. Demcoe, would you make a comment on that and I then may add to it. However, I will see how you get along.

Mr. DEMCOE: Actually, with the improved track conditions and the laying of heavier rail, new ties and more ballast, we actually do not require the

same day to day maintenance that we have required in the past. At the present time we are experimenting with larger gangs to do heavier work over greater distances than what we have done in the past.

Usually our section gangs look after seven, eight or nine miles of railroad. Perhaps there would be three, four or maybe five men in a gang. We now are trying to organize gangs of about 20 to 25 men and hope that they, in turn, will take care of 40 or 50 miles of railway. The purpose of this actually is to get better productivity at a more economical cost.

Mr. MACEWAN: Have there been any men laid off as a result of this procedure?

Mr. DEMCOE: No, there is going to be no men laid off; it is just a re-organization.

Mr. GORDON: Just a moment now. This is not a commitment for all time; it is another aspect of automation and, eventually, it will have an impact on the number of men employed. But, in the course of making this arrangement so far as possible we are using the effects of attrition to cushion the changeover period as much as possible without having to lay men off. But, in the long run it will mean we will be using fewer men by reason of this automation principle. You had a footnote in that respect. Our general position on the railroad, in respect of this whole question, simply is that there should not be applied to the railroad industry anything that affects the social or economic system without having it apply to other industries as well. There should be a general recognition of help, assistance or adjustment in respect of the whole problem of automation and I say it should not be confined to the railway industry. It should be a general principle. That really is what the railway industry is saying.

Mr. MACEWAN: Up until the present time have any of these men in the Atlantic area had to move to other localities away from their own homes?

Mr. GORDON: Well, that would be part of the impact that is unavoidable. But, we are doing the best we can to look at each particular situation and to help out as much as we can.

Mr. MACEWAN: I would like to put a question in respect of C.T.C.-equipped tracks. I know that the report says 500 miles of track in the west have been C.T.C.-equipped this past year. I would like to ask where C.T.C.-equipped track will be installed this coming year?

Mr. DEMCOE: C.T.C. is being installed west of Edmonton, between Edmonton and Jasper; there is a little bit in the Saskatoon territory, and also just north of Toronto.

Mr. MACEWAN: And, where in the Atlantic area?

Mr. DEMCOE: There is nothing this year in the Atlantic area.

The CHAIRMAN: Would you proceed now, Mr. Millar.

Mr. MILLAR: Mr. Chairman, I imagine that my question should be directed to the Minister of Transport. I am making reference to Mr. Gordon's remarks a few minutes ago in respect of the displacement of personnel. We are all well aware that the government has set up a Department of Industry and probably one of the chief considerations of this department is the distribution of industry throughout the country and then subsidizing industry with the taxpayers' money in an effort to encourage them to go into areas that are classified as depressed areas; yet, on the other hand, we have a crown corporation such as the one Mr. Gordon is responsible for concentrating their activities in the larger centres. It would appear to me that you are taking it away with one hand and handing it back with the other.

I quite appreciate Mr. Gordon tries to operate his business at a profit and he cannot be responsible for the social problems of the whole Dominion of Canada but at the same time both of these things, in a sense, come under departments of government. I have in mind, for instance, the removal of the car shops from London and putting them in Montreal. Also, you took something out of the Atlantic provinces and put it in Montreal, and you took something out of Winnipeg and put it in Montreal, and then we have to turn around and pour the taxpayers' money back into such areas to subsidize them because they become depressed areas. I do not think that Mr. Gordon should have to answer that question, but I would like to have an answer to it.

The CHAIRMAN: Mr. Millar, I do not know on what basis Mr. Pickersgill should be requested to answer this question. You have made an observation which should be made—

Mr. MILLAR: This is true.

The CHAIRMAN: —In the House of Commons. I do not think that this committee is a place for you to pose your question.

Mr. MILLAR: The thing is, Mr. Chairman, that we come to this committee and put all these questions to Mr. Gordon when he is the victim of applying a policy for which government is responsible.

The CHAIRMAN: I think Mr. Gordon has explained—you referred to him as a victim—that he is not responsible for the situation.

Could we proceed with actual questions in respect of operations, if there are any left.

Mr. ROCK: Mr. Chairman, in respect of track and signals—

Mr. HORNER (*Acadia*): Are we going to proceed to that heading now?

Mr. ROCK: I was just asking. It seems to me that everyone has been moving all around.

Mr. HORNER (*Acadia*): Let us proceed with one heading at a time.

Mr. ROCK: Mr. Chairman, is the door open for questions to be directed in respect of any matter. It seems to me that this has been the case.

The CHAIRMAN: Order, please, Mr. Rock. I think it has been agreed that we call operations and I am willing to accept questions on any part of operations.

Mr. HORNER (*Acadia*): Mr. Chairman, will you put my name down, please.

Mr. ROCK: Did you say on operations?

The CHAIRMAN: Yes, you can put questions on any part of operations.

Mr. ROCK: Mr. Gordon, I note that you still have in many urban areas the old telegraph lines beside the track. You will recall that we had quite a severe sleet storm in the Montreal area and most of your lines were knocked down by that storm. Yet, your company replaced the same type of lines and used the same method of installation. But, in many country areas over which the same storm passed the Bell Telephone Company did not put back the poles or the old lines, such as you still have existing beside your tracks; they went underground. The Bell Telephone Company has stated that it is cheaper to maintain underground installations. I would like to know whether there is any intention of your company in the future to fall in line with the trend of installations in new developed areas, where the street lighting lines and power lines are placed under the ground behind the homes. Have you a far reaching program to do this in the urban areas for beautification purposes?

Mr. GORDON: That would be the objective in the long run but in modernizing our telecommunications gradually we intend to get as much as possible out

of the equipment. We do not want to scrap them for the sake of scrapping them, but we gradually will modernize these. If I might suggest, when a sleet storm occasions damage to such lines on railway property it is much more important that we get back into business at once in order not to tie up the railroad. So, first of all, we repair on a temporary basis much more quickly than the Bell Telephone Company because we cannot operate without our signals.

Mr. ROCK: But, have you a program in mind for modernizing this in the future?

Mr. GORDON: Oh, yes; that is part of our policy and we will do the very thing you have mentioned. But, we will do this gradually and try to get as much life as possible out of our existing facilities.

The CHAIRMAN: Mr. Horner, would you proceed?

Mr. HORNER (*Acadia*): Yes, Mr. Chairman. I have questions pertaining to track.

I was greatly concerned about the speech you made in Winnipeg and, as you said earlier, it was a speech that one could accept as C.N.R. thinking and C.N.R. future policy. On page 5 of this speech you said that today on a thin density railway branch line, on 60 to 70 miles of track the trucks can haul grain cheaper by road than the Canadian National operating on such a track. Could you give the committee a rule of thumb or estimate as to what it costs to maintain such a track on a thin density line?

Mr. GORDON: Well, that would call for a pretty searching examination of each particular place because it would depend, again, on the actual density of the line and the actual density of the traffic. We keep all our lines to a minimum standard of safety; in other words, no matter what happens there is one point at which we will not go below. But, I could not give you off-hand the cost, unless it is a specific situation. If you have a particular line in mind we could examine it.

Mr. HORNER (*Acadia*): I am not asking for a specific cost but an average rule of thumb. I do not agree with the fact you have no idea as to what this would be. I am sure that in the trucking industry a trucker will tell you it costs him so many cents a mile to operate a truck of a given standard size.

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): And, if the government hires an automobile they pay 10 cents a mile and that is it, and if you operate within that limit, all right. I am sure the railroad and you, as management, have a rule of thumb in regard to track maintenance on the prairies. I am not referring to the mountainous areas or, say, in Mr. Fisher's riding.

Mr. GORDON: We could get the average for you, if that is what you wish.

Mr. HORNER (*Acadia*): I am asking for an average rule of thumb for maintenance per mile of track on the prairies on those tracks which might be considered off the main lines.

Mr. GORDON: We would have to go back for that information. We would have to develop an average figure for that. But, I thought you had specifically in mind a figure attached primarily to branch lines.

Mr. HORNER (*Acadia*): I do not wish the maintenance costs for main lines but the average rule of thumb which you must use in equating the various problems in respect of transport and rail movement on branch lines.

Mr. GORDON: If you look at our branch lines you will see from the form I tabled that we estimate in each case the actual maintenance cost of that particular line. Now, the maintenance cost of line A would not necessarily have any relation to line B.

Mr. DEMCOE: That is correct.

Mr. HORNER (*Acadia*): I have attended several meetings in which railway management has presented figures and facts for various lines.

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): And, these facts and figures come out of the blue at these meetings and are presented there. No one else has figures at his disposal and unless a person knows all the details these figures really mean very little.

Mr. GORDON: But we detail that in the form I mentioned.

Mr. HORNER (*Acadia*): What I am requesting is a rule of thumb on branch line maintenance. Surely you can give this to me.

Mr. GORDON: I will have a look at it and see what our operating people say. But, what I am telling you is a matter of logic.

Mr. HORNER (*Acadia*): I know that it will vary from line to line in respect of the density of traffic.

Mr. GORDON: Yes, and the figure will vary in respect of the physical characteristics of the line as well.

Mr. HORNER (*Acadia*): Yes, it will vary in respect of characteristics of the line, but I am assuming that the prairies, in a sense, are all of one physical nature, generally rolling flat plains, a great country.

Mr. GORDON: As I understand your question, you want me to see if I can take all our branch lines, add up their maintenance costs and then divide that by the number of miles and say what the average is.

Mr. HORNER (*Acadia*): Yes.

Mr. GORDON: That could be done but I have not that figure here with me today.

Mr. HORNER (*Acadia*): But perhaps we could have it for the evening meeting.

Mr. GORDON: This evening, yes.

Mr. HORNER (*Acadia*): Or, perhaps this afternoon. I will forgo any further questions on that at this time.

Mr. GORDON: I will see what I can get. I will have one of my officials telephone back to see if the appropriate department can produce that on short notice. It can be produced, but the reason we do not produce it is that from the standpoint of management it really is worthless.

Mr. HORNER (*Acadia*): Well, in a speech you said that trucks can haul grain cheaper. You say in your statement that in the case of a line that carries entirely grain and where the total volume originated is about 1,000 box cars, the trucks can haul this cheaper. I know what it costs to haul grain in a truck 60 or 70 miles and I do not think that trucks can haul it cheaper. I want to know what your maintenance costs are on that 70 miles of line. It must be tremendously high.

The CHAIRMAN: Would you proceed, Mr. Millar.

Mr. MILLAR: I would like to get at the nub of this matter. At what point do you decide a truck can haul grain cheaper? How do you determine that?

Mr. GORDON: I can tell you that I know that all the statements I have made in that speech in regard to the costs are correct because we made sure they were correct before I was permitted to say so.

Mr. HORNER (*Acadia*): There is something wrong that the railway is doing if it is that high because I live along a thin density line, although it is moving a lot of traffic at the present time.

Mr. DEMCOE: You have to consider how you handle your grain, whether you go back with a freight train with 100 cars on branch lines and spot 10 here, 10 there and 10 at another place and then next morning pick them up loaded. But, generally, we go up there with 10 or 12 cars and we spot one car at each station and then go back a week later and pick up half of them, spot some more and then go back in another week and pick up the other half.

Mr. HORNER (*Acadia*): But, in his speech he is referring to 1,000 cars which, roughly speaking, is 20 cars a week. They are not going down with 10 cars once a week but with 20 cars and picking up 20 full cars a week or, in the alternative, 40 cars at the end of two weeks.

Mr. GORDON: Yesterday I had my cost accounting fellow here with me but he had to leave for an important meeting which he had. I am sorry but I thought that we were all finished with this.

Mr. HORNER (*Acadia*): We have just begun.

Mr. GORDON: He could have dealt with this and given our cost accounting approach.

The CHAIRMAN: Mr. Lloyd, would you proceed.

Mr. LLOYD: Mr. Chairman, this question which I am going to put may not be appropriate at this time and if this is the case you will rule me out of order. My question has to do with the purchasing practices. In operations, I notice, for example, that in 1963 the over-all operating expense, apart from interest and other charges, ran about \$693 million and capital expenditures, on page 24, by way of additions, amounted to \$127 million. Now, this is a very substantial quantity of purchasing power, Mr. Gordon.

The CHAIRMAN: Mr. Lloyd, do you not think this should be brought up on the budget later? We are discussing actual operations.

Mr. LLOYD: This is under the financial statements at the back. I am agreeable to defer it if you wish to defer it from operations.

The CHAIRMAN: That is right.

Mr. LLOYD: Very well.

(*Translation*)

Mr. GRÉGOIRE: I have a question concerning the CNR tracks. Mr. Gordon, have you had an opportunity of making the trip by train between Montreal and Jonquière-Chicoutimi, in the Saguenay, recently?

(*Text*)

Mr. GORDON: No, I have made no personal trips in the last year. I have not had time.

(*Translation*)

Mr. GRÉGOIRE: If you could, Mr. Gordon, you would realize that the track is a very poor one for passengers. It is probably one of the worst I know of. I think that track should be repaired or maintained in some way. Have you taken that into consideration in your plans for improving the tracks?

(*Text*)

Mr. GORDON: Well, we keep the maintenance, as I have said before, up to minimum standards. I have been over the line, though not recently, as I say, and I know the line of which you speak. I made a special trip on that a few years ago—and I got stuck on the line, by the way, during a snow storm. Basically, the line is a difficult one in terms of curvature and grading, and it would cost a terrific amount of money to bring it up to the standard that you apparently have in mind. What we are doing now is examining the situation and we are making small improvements year by year. However, basically, we have not a program with the idea of reconstituting the line.

(Translation)

Mr. GRÉGOIRE: But you are trying to do something each year so that in an unspecified number of years that track will be improved?

(Text)

Mr. GORDON: I would say yes.

(Translation)

Mr. GRÉGOIRE: In general?

(Text)

Mr. GORDON: Yes, and I would further suggest to you that the track is a better track today than it was ten years ago, so there has been some improvement along that line.

(Translation)

Mr. GRÉGOIRE: Is the freight traffic, or the passenger traffic, between Montreal and Chicoutimi-Jonquière sufficient to allow the Canadian National to invest money in improving the track?

(Text)

Mr. GORDON: No, the actual traffic is not heavy enough to really warrant a crash program, so to speak, in respect of improving the track. The traffic is fairly light, all things considered. However, we are making progress. That is the best answer I can give you.

(Translation)

Mr. GRÉGOIRE: How long do you think it will take to improve the entire track?

(Text)

Mr. GORDON: Well, there is improvement going on year by year but unless we engage in a crash program, as I say, and unless we were to spend a very large sum of money, the line would still not be of the standard, for instance, of the line between here and Montreal. We will never get it to that standard unless we are to spend many tens of millions of dollars on it. It is not our intention to reconstitute the line to that extent.

The CHAIRMAN: Mr. Beaulé.

(Translation)

Mr. BEAULÉ: Mr. Chairman, I would like to address my question to the minister since Mr. Gordon referred me yesterday to the minister for a question regarding the project to build a railway line between Gaspé-Sainte Anne des Monts, which was abandoned. What were the major reasons for giving up that project?

(Text)

Mr. PICKERSGILL: Mr. Chairman, I am just wondering whether this is a matter that has been remitted to the committee. I do not object in the least to answering Mr. Beaulé's question but it does relate to an act of parliament; it does not really relate to the activities of the Canadian National Railways at all. The present government has made a decision not to proceed, at the present time at any rate, with the building of a railway there but instead to recommend to parliament that money be voted equal to the amount provided in that legislation for the amelioration of other means of transport in the region. I think I have said in the House of Commons that we have already engaged in some discussions with the government of Quebec with a view to having a very rapid acceleration of the Gaspé highway, parts of which are not in very good condition I am told. We are also looking into improvements in aerial communications. I think possibly

it is simpler for me to give that much answer rather than to raise a point of order, but I do not think, since the committee has been charged with discussing Canadian National Railways, that this would be the appropriate place to discuss this. I hope to reach some kind of conclusion that will enable the government to bring some supplementary estimates into parliament when we can have a full discussion on it.

*(Translation)*

Mr. BEAULÉ: I would now like to ask Mr. Gordon a question. Mr. Gordon, you are certainly aware of the fact that a passenger service between Quebec and Chicoutimi is obsolete, and that the passengers have to make a detour via Hervey Junction, get out at Hervey Junction during the night, and board the Montreal-Chicoutimi train. Are you thinking of making any changes in order to improve the passenger service between Quebec and Chicoutimi?

*(Text)*

Mr. GORDON: That question is under very active study now by our passenger department. We hope we will be able to improve it.

*(Translation)*

Mr. BEAULÉ: Now, you are aware that passengers have to pay more to get from Quebec to Chicoutimi via Hervey Junction because they travel a greater number of miles. I have written to Mr. Delâge about passengers paying more than they did before. Would it not be possible to retain the rate they used to pay when they travelled via Rivière-à-Pierre?

*(Text)*

Mr. GORDON: Well, all I can say at the moment is that the question is under examination and that phase of it also will be dealt with, but I am not prepared to give a complete answer to it now because, as I say, I have not the results of the study myself yet.

*(Translation)*

The CHAIRMAN: Mr. Grégoire.

Mr. GRÉGOIRE: To proceed with the matter of the track between Montreal and Jonquière-Chicoutimi, can we conclude from what you said earlier that the Canadian National carry out repairs or maintenance each year on the track between Montreal and Jonquière-Chicoutimi?

*(Text)*

Mr. GORDON: That is a general question in regard to our maintenance of the track. There is always a certain amount of maintenance work going on almost every year.

*(Translation)*

Mr. GRÉGOIRE: Mr. Gordon, I do not necessarily mean maintenance of the track, but improvement of the track so that it would be easier to use... no but in the past, could it be said that you improve it each year? Are you going to improve it this year? For instance are you going to remove some of the sharp curves so as to improve certain parts only, each year? Could it be said that you do some work of this kind each year?

*(Text)*

Mr. GORDON: I think I can say yes to that.

*(Translation)*

Mr. GRÉGOIRE: Do you improve parts of the track each year?

*(Text)*

Mr. GORDON: Yes.

(Translation)

Mr. GRÉGOIRE: Then how many years do you think it will take before the entire track is improved?

(Text)

Mr. GORDON: My trouble in answering that question is that it all depends on what standard you have in mind.

(Translation)

Mr. GRÉGOIRE: For example, when you sleep on the Montreal-Jonquière train you leave at 8 o'clock in the evening and you arrive the next day at 8 o'clock, I think, and do we not wake up every hour wondering whether the train has become derailed or has run off the tracks.

(Text)

Mr. GORDON: I would be ashamed if the track was all that bad. I doubt very much that I can let that pass. I do not think it is all that bad. The train does stay on the rails!

(Translation)

Mr. GRÉGOIRE: You stay on the track but you wake up every hour or every three-quarters of an hour wondering whether the train is still on the track because you feel the cars shaking. If you doubt it I suggest you make the trip one night, I guarantee the next morning you will be surprised to find yourself in Jonquière!

(Text)

Mr. GORDON: All right, I will undertake to make a night trip. I will let you know, and perhaps we might sit up together and see just what you have in mind.

Mr. BEAULÉ: That will be out of bounds!

The CHAIRMAN: Mr. Balcer.

Mr. BALCER: Mr. Gordon, have Canadian National Railways been approached by the Quebec provincial government in relation to the building of a steel complex at Bécancour to see whether Canadian National Railways would be in a position to give proper service to this gigantic plan of the provincial government?

Mr. GORDON: No, there has been no discussion between us and the Quebec provincial government as such. All I know about it is what I have read in the papers and, as far as I know, the government has not made any statement about its precise plans. We have, however, the whole area of Contrecoeur and around that area, where the steel complex is going, under consideration.

Mr. BALCER: The big discussion in my area is between Becancour and Contrecoeur, and there is a big difference between the two.

Mr. GORDON: There has been no discussion between the railway and the Quebec government with regard to the location of the steel complex or where it may be located or what may happen to it. We are just as interested as you are.

Mr. GRÉGOIRE: Would it be as easy for you to go into Becancour as Contrecoeur?

Mr. GORDON: I would have to refresh my mind about that.

Mr. BALCER: It is a matter of a few miles from Manseau. It is a matter of a few miles.

Mr. GORDON: That being so, we would have no difficulty in servicing the point.

Mr. FISHER: First of all, I would like to know if you have been using any ties that have been processed by the boliden process.

Mr. GORDON: What process?

Mr. FISHER: The boliden salts process.

Mr. DEMCOE: We are trying out a new process in western Canada. I do not know exactly the name of it, but it is a little different from that used in eastern Canada.

Mr. FISHER: Where is the work being done? Where is the actual processing being done?

Mr. DEMCOE: I think it is at Edmonton.

Mr. FISHER: I have another question relating to track. There were great attempts made by certain groups in northwestern Ontario to get you to run a higher calibre train from Winnipeg through to Longlac on the south line. This, I gather, is still the subject of some discussion. One of the difficulties involved, I understand, in putting a first line train on there was the condition of the track. Is there any plan at all to see what it would cost to upgrade the track so you could put a high performance train with a fast schedule on that stretch of line, which must be 700 or 800 miles in length.

Mr. GORDON: Yes, there have been discussions on that, and the conclusion last time it was mentioned to me was that we could not see that the potential traffic would justify raising the standard of the line to take care of the situation you have in mind. The line is quite adequate for the traffic we are now handling there.

Mr. FISHER: When will that decision be final?

Mr. GORDON: It is never final in the sense that we will be constantly watching the situation to determine whether or not there is a potential of traffic that will justify the improvement of the track. It is under review.

Mr. FISHER: Is there any plan at the present time, even in the projection stage, for putting in a new track at the lakehead to go to Jarvis bay rather than have the present ore facilities run through into the centre of the town at the ore dock there?

Mr. GORDON: No, there is no plan for that in mind at the present moment.

Mr. PASCOE: May I ask a supplementary question in regard to the ties? They are talking about replacing a large number of ties in the prairies. The railways make their own ties, do they? Or do they call for tenders for them? From where does the railway obtain the ties?

Mr. GORDON: Our purchasing department obtains the ties by calling for tenders all around the country. Mostly they are bought from small operators and shipped into the processing plant. We do not process any of our own ties.

Mr. PASCOE: Just one more question on that. Are the discarded ties still available to the farmers when they go past their property?

Mr. GORDON: I don't know. Usually by the time we take them out they are ready to burn.

Mr. DEMCOE: They are made available at certain locations to people who live adjacent to the track. In some places we sell them and in some places we give them away. If it is cheaper for us to give them away than to handle them and burn them, we give them away.

Mr. PASCOE: Some farmers like them for a foundation.

Mr. GORDON: Tell them to make us a bid!

Mr. PASCOE: They can't have them for nothing!

Mr. GORDON: No!

Mr. CADIEU: Have Canadian National Railways given any thought to connecting the gap from Frenchman's Butte in Saskatchewan to Heinsburg, Alberta, thus giving this line the possibility of becoming a paying line, and also giving the people in the area the service that Canadian National Railways have deprived them of for many years, there being a natural barrier in the North Saskatchewan river. I was wondering why so many years have elapsed and this near gap of 38 miles left from Frenchman's Butte to Heinsburg, Alberta. I think when you look at the long haul it would cut off, and I was wondering why so much time had elapsed and whether any consideration had been given to filling in this gap.

Mr. GORDON: The reason so much time has elapsed is that we decided we were not going to do it.

The answer to the second question is that we looked at that matter. We looked into it in great detail a few years ago and, at that time, we were encouraged. We thought there was going to be an industry located there in the form of a sulphur plant, but that fell through. So it is not part of our present policy to complete that gap because we do not think the economics justify it.

Mr. CADIEU: But the possibility of a salt mine development is still there and farmers are still there and the Saskatchewan river is still there. In view of this natural barrier of the Saskatchewan river, do you not think this should be given another look?

Mr. GORDON: We are always willing to look at it but we have no knowledge of any potential industry at the moment that would justify the expense of filling in the gap.

Mr. CADIEU: But you would be willing to give it another look?

Mr. GORDON: I would welcome the suggestion. We came very close to doing it in years past—I think seven or eight years ago. We were very close to doing it because we were encouraged by the discussions with the industry but then they fell through when they decided not to locate at that point.

Mr. CADIEU: Is there a possibility before the line would be abandoned that you would give this further consideration? Would you consider before any abandonment the fact that it makes a direct line all the way from Winnipeg to the northern part of Alberta?

Mr. GORDON: That has all been taken into account in our economic examination of it.

The CHAIRMAN: Gentlemen, shall we turn to train services?

Mr. GRÉGOIRE: Yes.

The CHAIRMAN: Perhaps you will allow me one word here. As we go into freight services I think we will proceed paragraph by paragraph because I see the last item could bring us into trucking in a heavy way, mixed up with ordinary freight, and for that reason I suggest we reserve any matters concerned with trucking until we come to deal with trucking.

Mr. HORNER (*Acadia*): I have one question on the work study in operations. Has Mr. Gordon an estimate with regard to the operational cost—"the most efficient use of men, material and equipment"—of the diesel locomotive per mile or per run? Have you got this generalized in any way?

Mr. GORDON: You are back again to the question of our costs of operation in terms of diesel.

Mr. HORNER (*Acadia*): Yes, that is right.

Mr. GORDON: Again, I am not sure just exactly what you have in mind.

Mr. HORNER (*Acadia*): I am trying to figure out how much is costs to haul a bushel of grain. I will tell you that is one of your operations that is not very efficient!

Mr. GORDON: Mr. Horner, let me remind you again that this is exactly the kind of thing that the royal commission on transportation spent a great deal of time discussing and they heard expert witnesses going on for days and weeks and months. I do not want to appear to be alibiing but the question of railway costing is one of the most complicated subjects with which I have ever had anything to do. It cannot be answered in the way we are trying to do it now, in a question about one phase; that is impossible. It took the commission many months, fortified by the best experts in the world, experts brought in not only from the United States but from the United Kingdom and all over the place. What the commission finally established was a cost accounting formula and system which satisfied them in the matter of the recommendations which they made. If you want to study that I advise you that the detailed evidence brought in along this line stacked on the floor will measure exactly six feet eight inches. I know because I stood beside the volumes of evidence and it measured six feet eight inches.

Mr. HORNER (*Acadia*): Mr. Gordon, I realize that this is a very complicated study. In no way do I wish to review what the royal commission did, or anything else. I want briefly to summarize in my own mind. You made the statement two years ago—and I remember well when you made it because it caused me to have a great deal of fear with regard to the economic conditions and the economic upheaval that would be caused on the prairies. I mentioned it briefly yesterday or the day before in this committee, and you said that was a good statement, that it was a statement setting out future policy, and was well prepared and well thought out by the top men in Canadian National Railways, and that this was the thinking of Canadian National Railways.

Now, in reading the statement over again—you were good enough to give us all a copy of your speech—my fears were renewed, only doubly so, when I came to the statement which you made that grain can be hauled over a distance of 60 to 70 miles cheaper by trucks than by the existing railroad. This is where I am trying to get down to the nub of the problem. I live alongside the thin end of the branch line. I know roughly the operational maintenance of this by the reduction of the number of section crews in the past year. I know, roughly speaking, of the number of changes in ties on this 70 mile line. I know how often a train comes down there. In fact, 16 or 17 years ago, the railroad offered to make a special run down there for six cars which I wanted to move, six box cars full of material. The railroad said, "You should have called us and we would have run down an engine with six cars rather than you taking it by truck", or overland, as the case may have been.

This is the question I want to have answered—I do not want to go into the detailed cost accounting or a study of any six foot eight pile of evidence. I realize the commission did this but I am not in complete agreement with the commission on their answer. They took an easy way out which had received a great deal of propaganda—for instance, this business of the Crowsnest pass rate being a subsidized rate. I do not agree with this for one minute, and I might point out that not all the commission agreed with this finding; it was not a united finding at all.

I know enough about trucking to realize that a trucker or a businessman can give you a rule of thumb on how much it would cost to move a bushel of grain, or that it would cost 20 cents a mile to operate a truck, and so forth, but I know the railroad must have a rule of thumb with regard to maintenance. I think the railroad should and would, because they are very thorough in their work, have a rule of thumb with regard to operating a diesel locomotive. This is all I am asking.

Mr. GORDON: I take cognizance of what you said and if it is agreeable I would rather transfer this to a personal discussion with you or to an exchange of letters in which we will try to satisfy you. My point is this: I am hesitant naturally because if you are not prepared to accept the decision of the commission which had at its disposal the best experts in the world and who took two years in their studies, if you brush that aside, I have not much hope that I will convince you.

Mr. HORNER (*Acadia*): They did not take two years to study this question.

Mr. GORDON: No, but this question of the cost accounting branch was dealt with throughout almost every session of the commission's hearings. I am sorry, as I said before, because I think Mr. Banteen, who was our witness and who has this information at his fingertips, could have had a very useful talk with you.

Mr. HORNER (*Acadia*): I am sorry I did not take this subject up yesterday but I took a lot of the committee's time.

Mr. GORDON: I cannot deal with it now, nor can I deal with it between now and tomorrow, but if you let me take note of your questions to the point where we will get in touch with you by mail, it might solve the problem.

Mr. HORNER (*Acadia*): I will bring this up again when we come to "outlook". I have to do it. The last chapter deals with the outlook of the C.N.R. and this is your outlook which also appears in your speech called, "grain on the move." I have to bring this up again and I have to have some answers because I violently disagree and I violently believe that in your speech dealing with grain on the move you are doing nothing to alleviate transportation problems; all you are doing or suggesting should be done is that you are going to take the burden of moving the grain off your back and put it on the farmer's back and the farmer will then carry a greater percentage of the transportation cost. I know what he gets for a bushel of grain and what it costs to produce. You are going to add another 30 cents per bushel to the cost of getting the grain to his market. The farmer cannot stand this, nor has the Liberal government come through with their promises to him.

The CHAIRMAN: We will come back to that. Are we all agreed on operations?

Operations approved.

The CHAIRMAN: We are now on "freight services". The first item on freight services is sales.

(*Translation*)

Mr. GRÉGOIRE: Mr. Chairman. I would like to ask Mr. Gordon this question: before, when the express trains arrived in a town and the goods had to be delivered, the Canadian National had their own trucks—

The CHAIRMAN: Now, Mr. Grégoire, are you speaking of trucking or are you—

Mr. GRÉGOIRE: Of the freight service as it is mentioned here, Mr. Chairman. So when you ran the freight service you had your own trucks to pick up the parcels and deliver them. The Canadian National owned their own trucks for the freight service.

(*Text*)

Mr. GORDON: I have not yet heard the question. You made a statement.

(*Translation*)

Mr. GRÉGOIRE: Did you own the trucks? Did the Canadian National own the trucks that delivered goods or parcels shipped by express at Jonquière, for example?

(Text)

Mr. GORDON: I would have to find out about Jonquiere but certainly we use trucks to deliver merchandise there.

(Translation)

Mr. GRÉGOIRE: In some municipalities, in some places, you decided not to use those trucks any more but to let this work out by contract to other firms performing the same service on behalf of the Canadian National. The Canadian National lets these contracts to firms who deliver the parcels, and I believe that is what happened in Jonquière. Now, Mr.—

(Text)

Mr. GORDON: Yes, it depends on the circumstances. In some cases we do employ truckers by contract. We have many outside contractors for the delivery of our goods.

(Translation)

Mr. GRÉGOIRE: Now, Mr. Gordon, I would like to ask you this; can an employee of the express service or the freight service who is regularly employed by the Canadian National, who is paid a salary by the Canadian National, at the same time, either as sole owner or as co-owner because he is a shareholder in the company, get a contract from the Canadian National to deliver parcels?

(Text)

Mr. GORDON: This, I am afraid, is a question which deals with the general matter of trucking. If we are going to deal with that at this point, Mr. Chairman, I have to make a general statement in respect of our position vis-a-vis the whole situation that we are in about trucking, particularly in the Province of Quebec.

(Translation)

Mr. GRÉGOIRE: But Mr. Gordon the matter of trucking is not necessarily a matter of general policy, it is merely a matter of whether the Canadian National are in the habit of letting a contract to a full-time salaried employee, of letting contracts to carry goods shipped by the Canadian National, by truck, allowing him to work both as a full-time salaried employee and as contractor for the Canadian National?

(Text)

Mr. VAUGHAN: Does he drive a truck himself?

Mr. GRÉGOIRE: He is the owner of the truck and he is a regular employee of the company.

Mr. VAUGHAN: You asked a question about that, if I remember.

Mr. GRÉGOIRE: Let us say I will not qualify the answer I received.

Mr. VAUGHAN: I realize the answer was not too satisfactory.

Mr. GRÉGOIRE: Far from being satisfactory.

Mr. VAUGHAN: But, as I think we said in the answer, it was not within our knowledge to go behind an individual to find out what his interests were.

Mr. RHÉAUME: Could Mr. Grégoire raise this issue after 10 o'clock tonight?

Mr. GRÉGOIRE: I am completely in order in asking this question here.

Mr. GORDON: I can see your point now. It would be quite possible that an employee of the C.N.R. might be a shareholder of a trucking company with whom we had a contract to handle trucking for us—we do not know. However,

it would not be the case, as far as I know, that we would have an employee of the C.N.R. trucking for us himself and at the same time being an employee of the railway, but he could easily be a shareholder of a company that does.

Mr. GRÉGOIRE: Let us say he is not necessarily a shareholder.

(Translation)

He is not necessarily a shareholder but if he is the treasurer of a trucking company, if he signs the company's cheques to pay the truckers, if he looks after the office and management of the trucking company and is at the same time a regular salaried employee of the Canadian National, is that a practice—

(Text)

Mr. GORDON: I do not know of any cases like that. Let me put it this way. Suppose you and I were brothers and we were both McGregors. I am working for the C.N.R. and you have a trucking company. Now, you could get a contract from the C.N.R. for your trucking operations and it might be that I would be putting up all the money for you. However, there is no way for the railway to know that. I could give you \$25,000 which might be needed for your business and you would operate the trucking company—that is your business. However, there would be no way for the railway to know that.

Mr. GRÉGOIRE: But you are an employee of the C.N.R. and it is proven that you are the one who runs the administration of the company under my name as McGregor, you being another McGregor. You sign the cheques, your name appears on the cheques and your signature is on every cheque to pay the employees of the trucking company. Would it be sufficient to prove that?

Mr. GORDON: If the employee was doing that on company time, we would have a view on it, but if he is doing it on his own time and helping his brother with the business in the evening, or anything of that sort, that is his own business. When you come to the question of moonlighting, we have a policy on that, but legally we have no position on it; we cannot stop the employee from doing what he wants on his own time—this is a free country.

Mr. GRÉGOIRE: Suppose it is done in the time of the company?

Mr. GORDON: Then we would not permit that.

Mr. GRÉGOIRE: Would you make an investigation in a case such as the one going on in Jonquiere?

Mr. GORDON: Please give me the particulars and, certainly, we will look into that.

Mr. GRÉGOIRE: I gave you a lot of particulars in the question I asked on the order paper—I mentioned all the names.

Mr. VAUGHAN: We had difficulty trying to run it down.

Mr. GORDON: Most certainly I can assure you that if a company employee is engaged in another activity during the company's time, we would have very strong views about that, but if he is doing it on his own time, then we have no business in interfering with him and we would have no right to call him before us and to ask him what he is doing with his evenings.

Mr. GRÉGOIRE: I am not talking about the evenings but about his day-time work.

Mr. GORDON: All right, if it is in the time that he is supposed to be working for the railway, then we have views on it.

Mr. GRÉGOIRE: Suppose he leaves his regular job in the C.N.R., during the time when he is employed by the C.N.R., to do some work for his trucking company?

Mr. MILLAR: He must be a Tory.

Mr. GORDON: We would have to get particulars on it. I have never run into this, and actually I do not know. If he did it during his luncheon hour, if he has a regular luncheon period, again it is a question of whether it is his own time or not.

*(Translation)*

The CHAIRMAN: Mr. Grégoire you are going to give Mr. Gordon more details.

*(Text)*

Mr. GRÉGOIRE: If I give you all the particulars on that case, would you agree to making a complete investigation of it?

Mr. GORDON: I will make an investigation to the full extent that I have the right to do so, but I am not committing myself to investigate a man's personal life.

Mr. GRÉGOIRE: I am not asking for that; I am asking, within the restrictions you have mentioned concerning his daytime work, that is if he is doing that during the office hours of the C.N.R., if he leaves his job to do that, whether that could be proven?

Mr. GORDON: We will certainly investigate that.

The CHAIRMAN: Are we agreed on "sales"?

*(Translation)*

The CHAIRMAN: Mr. Beaulé.

Mr. BEAULÉ: Mr. Gordon, did the loading and unloading platforms you built at Charny and Sainte Foy for the Quebec service, give the results you expected?

*(Text)*

Mr. GORDON: You mean expected from the operational viewpoint in regard to traffic?

*(Translation)*

Mr. BEAULÉ: Yes, the traffic. When you built the piggyback in Quebec, the loading and unloading platforms from Quebec to Sainte Foy and St. Malo.

*(Text)*

Mr. GORDON: We would like to see more traffic. We built them for the purpose of providing the facilities, and we would then go out after the traffic. It has not worked out to be as big as we hoped, but we have not given up hope and we expect to develop the traffic by making the facilities available. First we have to make the facilities available and then we have to go out after the traffic, but at the moment it has not worked out as well as I had hoped.

*(Translation)*

Mr. BEAULÉ: If the results did not come up to expectations could that be because of the freight sales service in the Quebec area?

*(Text)*

Mr. GORDON: It is hard to say how effective the sales department has been. I do not know how to measure the results of the sales department. All I know is that we have men on the job who we think are doing a good job. I would not place the blame on them for the traffic not having developed, but I am

saying, in answer to your question, that we would like to see more traffic there than we have now, and we are certainly keeping up the pressure to see whether we can develop more.

*(Translation)*

Mr. BEAULÉ: So you can affirm that the money invested in the freight sales service in the Quebec area did not give the results you expected, because a fairly substantial amount of money—

*(Text)*

Mr. GORDON: No, I would not say that as a general reply. The facilities that we provided in Quebec have generally been satisfactory. There has been a satisfactory return, but not as much as I would like to see. You will see from the piggyback services mentioned at the top of page nine that our tonnage has increased by 5.9 per cent and the revenues by 6.3 per cent over 1962. Personally, I am not satisfied with that—I think it should be more—and the sales department is now working hard at it and we will see what we can do.

*(Translation)*

Mr. BEAULÉ: Well that boils down to what I said. Are you satisfied with the service you operated in 1960, and the freight service which was expected to bring the company more traffic? Did that service prove to be a success?

*(Text)*

Mr. GORDON: There is a difference between whether it is justified and whether I am satisfied—there is a great difference there. I am never satisfied, and I am always looking for more business.

*(Translation)*

Mr. BEAULÉ: Are the company officials satisfied?

*(Text)*

Mr. GORDON: They had better not be. I do not want any of our sales department ever to be satisfied. However, the real point is whether or not the investment has been justified, and my answer to that is, yes.

*(Translation)*

The CHAIRMAN: Mr. Grégoire.

Mr. GRÉGOIRE: I would like to ask another question, as I had another question I wanted to ask Mr. Gordon a few moments ago. My understanding is that you may not have the particulars here, but could you let the committee have them before we finish our work? Are tenders called to let the transport of express freight to Jonquière trucking companies, and how many tenders were called, how many will be called, what companies tendered and what rate did each bidder quote for that particular town of Jonquière?

*(Text)*

Mr. GORDON: I have not those particular details. I am prepared to see if I can get them, but I would not necessarily be prepared to reveal the price of the tenders. I do not think it would be fair.

*(Translation)*

Mr. GRÉGOIRE: When we ask that kind of question in the House, the minister does not usually refuse to give us the names of the bidders, especially when a contract has been let. Or the price tendered or who got the contract. It is done all the time in the House, so I do not see why the Canadian National could not provide the same information.

(Text)

Mr. GORDON: I doubt very much if the Canadian National ever has given the actual prices. I do not recall that we have. I would give you the names but I do not think we ever have given detailed information on the actual price of the tender.

(Translation)

Mr. GRÉGOIRE: In that case Mr. Gordon could you just tell me what I want to know? I would prefer if you could, but if you cannot will you at least tell me how many people bid, the names of those people and whether you accepted the lowest bid.

(Text)

Mr. GORDON: Yes, we could tell you that. I do not know how quickly we could get that information for you but we will attempt to obtain it before the committee is over.

(Translation)

Mr. GRÉGOIRE: One final question. In regard to the express service now replacing the train that used to run between Jonquière and Chicoutimi, have you received any requests for the trucks to go along the west shore of the Saguenay towards Chicoutimi and then return to Alma along the west shore and onto the east shore of the Saguenay to Jonquière, so that about twelve fairly large municipalities located on the east shore of the Saguenay, namely, St-Ambroise, St-Nazaire, St-Jean-Vianney etc., could be served?

(Text)

Mr. GORDON: Well, we would not have that information in headquarters; that would be a matter for the local officers and, again, I would have to make inquiries locally to find out the answer to your question. This would take time. Normally, we would not have detail of that kind in headquarters.

Mr. GRÉGOIRE: Would it be possible for you to take that under consideration?

Mr. GORDON: Yes, we will find out for you.

Mr. ROCK: Mr. Gordon, Côte de Liesse boulevard in the constituency of Jacques Cartier-Lasalle is becoming the hub of transport in the province of Quebec. There is access to the airport from that area. The Canadian National and Canadian Pacific hump yards are there. Also, in the vicinity of this boulevard a great number of trucking companies have established and, from the main hump yard there is a track going to Côte de Liesse boulevard for piggyback service.

Is the piggyback service in that area profitable? Are you doing a big business with all the trucking firms in the area? If such is not the case is it because possibly your service is slower than the trucks which proceed directly from the Montreal area to Toronto? Are the railway operations too slow for that service?

Mr. GORDON: Generally speaking, in respect of this same question you are asking, I made certain requests only a few weeks ago because I am not satisfied we are getting enough piggyback business. As I said in answer to a previous question, the existence of the facilities has been justified, but I think there is more business to be obtained. We have to discover why we are not getting that business and ascertain whether it is slowness in the service, lack of sales appeal or some other reason. But, in any event, I have put them on the spot. However, it will take a while to get the results of the study. I am after this very thing as I am not satisfied with it.

Mr. ROCK: I can understand your dissatisfaction because you do have rail in the centre of this hub and your piggyback service is at the back door of most of the trucking firms in the Montreal area.

Does the same situation exist in other areas; in other words, in the Toronto area is your piggyback service located in the hub of a trucking area where you can unload immediately in that same given area, as in the case of Montreal, where you have the central offices, warehouses and trucking firms.

Mr. GORDON: There is not as much concentration in Toronto; but, there is a concentration and we have located the service at the most convenient points.

Mr. COWAN: I have to agree with you.

(Translation)

Mr. BEAULÉ: I have a supplementary question, Mr. Chairman. I would like to ask Mr. Gordon whether he does not consider that the cost of operating the freight sales service is too high, and causes the present state of confusion that exists in the department.

(Text)

Mr. GORDON: It could be; I do not know. That is what I am trying to find out. I am asking for a study of the whole situation to determine why we are not getting more traffic than we are getting now because as I said before, I am not satisfied with it.

Mr. KENNEDY: There has been a gradual separation of mail services from railway trains over the past few years. I would like to ask what effect this is having on the economic aspect from the point of view of the railway, and also what effect it is having on express traffic. Is more express business going to the post office because of this separation?

Mr. GORDON: Yes. But, generally speaking, the decision as to what mail goes forward is something that rests with the post office, as you know, and they have been making their studies on the basis of determining what is the cheapest form as well as the more flexible form. And, in the cases where it has left the rails, it is, generally speaking, because they found it more flexible by trucks. They are running trucks at times when it does not suit our particular timing. Of course, any business that we do lose has an effect on our railway generally and we do not like to see it. But, again, it is a matter of competition in that area.

Mr. KENNEDY: What effect has it on the express business? Has the post office taken over more express because they deliver it now to the different communities?

Mr. GORDON: Do you mean has their competition hurt our express business?

Mr. KENNEDY: Yes.

Mr. GORDON: Generally speaking, no, because the post office handles smaller packages. In express, we prefer to handle the large stuff; we are not too keen about the small packages, as a matter of fact, because we do not think they are economical, from our point of view, to handle.

Mr. LLOYD: Mr. Gordon, under the heading "sales" in respect of the overall policy I notice that you use the words "market-oriented approach". I suppose you anticipate that the Canadian National eventually will occupy a position similar to that held by the Canadian Pacific Railway in terms of seeking a sales volume at the cheapest possible cost to the user. That is your general orientation that you mention from time to time.

Mr. GORDON: Well, as a matter of fact, what I have reference to here is the market-oriented approach, and this is something we pioneered. We were very much ahead of the C.P.R. in this regard. They followed. This is a service to our

customer, which commences by a study which we will make in his particular plant in respect of his whole problem of movement. Very often we make suggestions to him in regard, for instance, to his type of packaging, his type of movement, how to take advantage of our incentive rates by way of volume, and so on. We study his problem in conjunction with our own and give him advice on how he can reduce his transportation costs. As I say, we provide that as a service to individual customers. It is a very objective service for the purpose of providing the technical skills that we have to help our customers resolve their distribution problems to their benefit as well as to our own.

Mr. LLOYD: I am a little concerned, Mr. Gordon, in this very necessary search for anomalies to keep rates down that perhaps some areas of the country which have enjoyed the economic activity derived from railroad operations may suffer, and I am particularly concerned with your movements of freight into Canada and from Canada; in other words, your export freight movements. For instance, you operate lines to United States ports for export movement, do you not?

Mr. GORDON: Yes.

Mr. LLOYD: You say in your report that the freight sales organization is currently reviewing the system's competitive position in anticipation of greater freedom in pricing which may result from federal government legislation based on the recommendations of the royal commission on transportation. If you obtain the greater freedom you anticipate will this mean the emphasis will be solely on obtaining traffic at the cheapest possible cost to the user and does it mean you will utilize the opportunity to move freight through United States ports as compared with, say, Saint John and Halifax?

Mr. GORDON: Well, of course, the route of the traffic is at the shippers discretion, not ours. In most cases the shipper will decide how he wants the traffic routed. If it is left to our discretion then we are under a general obligation to use a Canadian port. This is a requirement of the Canadian National Railways Act, section 21. I will read it to you:

The board of directors shall so direct, provide and procure that all freight destined for export by sea that is consigned within Canada for carriage to national railways either at point of origin or between that and the sea shall, unless it has been by its shippers specifically routed otherwise, be exported through Canadian seaports.

That is the legal direction to the Canadian National.

Mr. LLOYD: The out, of course, is unless it is directed by the shipper.

Mr. GORDON: Yes, and the shipper has control of his routing.

Mr. LLOYD: So, generally speaking, I suppose a good deal of your movement is governed by the shipper?

Mr. GORDON: Yes.

Mr. LLOYD: And because it is dictated by economical considerations to him.

Mr. GORDON: Yes.

Mr. LLOYD: Because he may find that by dictating the routing he may save money?

Mr. GORDON: Yes.

Mr. LLOYD: Or, get a faster delivery?

Mr. GORDON: Yes.

Mr. LLOYD: So, the economics of this operation are controlled by the shipper or the importer, perhaps, in some cases?

Mr. GORDON: Yes.

Mr. LLOYD: Now, Mr. Gordon my next question is being directed toward an effort to sharply distinguish between what will be the Canadian National's position in the future as against the role of government. As I see it, from the comments which you have made,—and I would like you to confirm this if I am right—you are trying to put the Canadian National organization as closely as possible in its management and decision making in respect of the operations of railways in a similar position to that of the Canadian Pacific Railway or any private competing transportation system. Therefore, all of your decisions will be based upon the economic feasibility to the system from the net revenue point of view. This means that in the future if you shifted this position, and if it becomes desirable on behalf of the government of Canada to subsidize your rail operations to promote utilization of export shipments through Atlantic ports, for example, then that will have to be a government decision and not yours.

Mr. GORDON: Yes, and I would hope and expect that the government decision would apply in the same way to the Canadian Pacific Railway as it applies to us.

Mr. LLOYD: Well, it would have to apply to all carriers involved in the movement of export goods. In essence, what you are saying is that you are trying to establish the Canadian National as an agency which does not in its operations conduct subsidy operations which are economically not feasible judged by normal transportation standards.

Mr. GORDON: We are operating on a commercial basis; in other words, we follow the same general commercial principles.

Mr. LLOYD: So, if it is a good thing for social or economic reasons to maintain utilization of operations which are suffering from a competitive position, say in the United States, then we have to look to a government measure, which involves a subsidy to you, the railroad, to bring that about.

Mr. GORDON: In this connection you must remember that the railroad never consciously subsidizes anything. By the general principle of the legislation of today and, I believe, by the legislation of tomorrow our rates have to be compensatory and we are under challenge at any point to establish that our rates are compensatory if a challenge is made in that respect. So, we do not subsidize any rate. If the government, by reason of policy, provides the Maritime Freight Rates Act, then that is for the benefit of the shipper, not us. All it means to us when we collect a subsidy in respect of a shipment is that the actual shipper pays part of the freight rate and the government the remainder. We regard it as revenue, not subsidy.

Mr. LLOYD: I am only trying to focus your attention on areas wherein you could operate.

Mr. GORDON: That is right.

Mr. LLOYD: Because you have the utilization of the harbours board facilities in Saint John and Halifax, which are governed by shipping, that shipping is related to the movement of export goods to and from the country. The extent of the utilization of those facilities is governed by whatever policy of government is in effect to bring about a greater utilization. As you know, studies now are under way and I wanted to make certain that all our effort is concentrated in the one direction. It would seem to me that if we think this is reasonable we should pursue it. It is a government measure in respect of subsidy either to the shipper or in some other way; it is not the railways who initiate it.

Mr. REGAN: Mr. Chairman, I have a supplementary question on this subject. However, I am not to gather from your remarks, am I, that the railway is neutral in the question of whether or not subsidies should be applied? In other words, surely your railroad, if it wants to operate at a profit would want to carry a volume of business, and would have a direct interest in having the

government decide upon a policy that would subsidize import and export cargoes through the Atlantic ports, for instance, in the face of the growing types and kinds of indirect subsidies to your competition, the ocean going vessels that go up through the St. Lawrence river and seaway system.

Mr. GORDON: Yes. We would have an interest in anything which encourages the traffic to come through Canadian ports and on to Canadian railroads and to the extent that we have been asked for advice or given the opportunity to push this, we do it.

Mr. REGAN: And, you agree at the present time there are a growing number of subsidies to export traffic moving by way of water compared to rail?

Mr. GORDON: Yes, we think so. However, it is hard to make a specific case in regard to it. There are some obvious types of facilities provided and so forth which benefit the water carriers.

Mr. REGAN: Is it not a fact in 99 per cent of the cases that this results in the wages for conveying these goods going to people who are not Canadians because of the foreign owned bottoms which are carrying goods moving in the seaway system and if these goods were moved by rail these wages would remain in Canadian hands.

Mr. GORDON: I would not disagree with you.

Mr. REGAN: In respect of the overseas freight service through Atlantic ports, what duties in this connection would Mr. Matthews and, indeed, all your people in England, have?

Mr. GORDON: Our office in London is there for the purpose of keeping in touch as much as possible with known movements of goods and trying to direct them so that when they will finally land in Canada they go on Canadian National Railways. We have a connection with a number of shipping firms.

Have you the list there, Mr. Vaughan?

Mr. VAUGHAN: Yes. This arose out of Mr. Lloyd's question yesterday. We have an association with Cunard, Furness Withy, Poseiden, Montreal Shipping, the Headline, the Manchester Line, and the Fjell-Oranje line, which is a Dutch line; and we have a very friendly and beneficial arrangement with the shipping companies which compensates for our lack of ships when compared to the Canadian Pacific Railway. We think this is a very good arrangement which we have with them for shipping goods overseas and as well bringing them into Canada.

Mr. GORDON: The point there, you see, is that all of these companies with which we have a close working arrangement are competitors of Canadian Pacific steamships. Therefore, they have an interest and they prefer to be friendly with us and direct cargo to us if they can in view of the fact that they themselves are competitive with Canadian Pacific. So these arrangements are very valuable to us.

Mr. REGAN: I go into this question because when I was in England in April I had the opportunity to meet with your people there and I was very impressed by the liaison they have with the different shipping companies. As I understand it, however, they attempt to co-ordinate cargoes that are destined for Canada, working in liaison with these companies, and to promote the idea that the shipments would arrive in a port that is serviced by Canadian National Railways.

Mr. GORDON: That is right. We have more than that; we go beyond that into Europe, and we have a number of agents throughout Europe which are also in touch with possible cargo shippers.

Mr. LLOYD: May I summarize this area if Mr. Regan has finished? Have you finished?

Mr. REGAN: Yes.

Mr. LLOYD: I raised this question because, as everybody knows, we have a dual riding in Halifax and we share our concern about the utilization of the ports in Halifax. That is quite obvious.

The CHAIRMAN: That is why you divided your speech!

Mr. LLOYD: And on various occasions this is a very useful device.

Mr. Gordon, you would say, then, that you have a distinct interest in the utilization of your rail lines derived from an expanded export activity through the Atlantic ports?

Mr. GORDON: Yes.

Mr. LLOYD: Because you must have some grave concern about the utilization of your system in the Atlantic provinces. That would be so, would it not? You have substantial deficits in operation now in that region. Is that region a substantial deficit area?

Mr. GORDON: We do not break down our bookkeeping in that respect by trying to identify the specific areas. We do not keep our books in that fashion.

Mr. LLOYD: Thank you.

The CHAIRMAN: Mr. Lessard.

(Translation)

Mr. LESSARD (*Saint-Henri*): Mr. Gordon, regarding the freight service, and since we are on the subject of the piggyback, would you tell us whether your department intends to service that yard on a temporary basis only? Are those buildings intended to remain there permanently, or are you going to continue to serve that area in the future for the piggyback?

(Text)

Mr. GORDON: You said something about the Turcot yard?

Mr. LESSARD (*Saint-Henri*): You use the Turcot yard for your piggyback operations. Is that a temporary arrangement or will it be permanent?

Mr. GORDON: That will depend upon the circumstances. We have our new yard coming into operation in Montreal and we will provide piggyback facilities at any point where we think we can get the business. Certainly where we have built them now we intend them to be permanent, but we may expand them.

The CHAIRMAN: Gentlemen, shall we carry on or does the committee wish to adjourn now? Mr. Horner, you have a short question?

Mr. HORNER (*Acadia*): Relatively short, Mr. Chairman. If you are planning to recess at noon I am prepared to wait until after the adjournment.

The CHAIRMAN: I have no plans; I am in the hands of the committee.

Mr. HORNER (*Acadia*): My question has to do with services. I am prepared to pass sales.

The CHAIRMAN: Have we finished sales?

Agreed.

Then we will deal with services. Mr. Horner.

Mr. HORNER (*Acadia*): Mr. Gordon, I have noticed your interest and your concern about the social upheaval with regard to the workers in the run through problem. You have emphasized, I think more this year than in previous years,—although I have not been a member of the committee every year—that Canadian National Railways are duty bound in many cases to provide a service to localities and areas. In your Winnipeg speech you

suggested an integrated trucking system which would be devised from the farms to the main lines. Should I take it that this would form part of the services which you feel you are duty bound to provide?

Mr. GORDON: I do not know. What I was trying to do in that whole speech was to make the point, among other points, that the railway is not the only outfit concerned with this problem of moving grain. I do not know what the solutions are. I have merely pointed out some areas that ought to be studied. It may be that in the course of that examination it will be found that various devices could be used, and an integrated trucking service may be one of them; it might be community-owned; it could be railway operated; it could be any one of a half dozen methods. There is no one method that I am specifying there. You see, in the speech to which you refer I was trying to get some action; I was trying to alert people to the fact that necessary studies are not taking place. I think I used the expression, if I remember correctly, that it does not seem to be the business of anybody to do it, to co-ordinate it, and that there is no co-ordinated study or examination taking place. The result is that each individual part of the problem is being dealt with on an individual basis.

I am worried about the railway basis. The things we are doing today in our own interests are not necessarily in the best interests of the whole problem. I used a lovely word, and I am not sure if I can pronounce it again. I called it "suboptimization".

Mr. HORNER (*Acadia*): Explain!

Mr. GORDON: Well, I can explain it, believe it or not. It is this. When you have a given problem and you make a analysis of it, unless all the factors that are available for the solution of that problem are brought into play, unless they are all co-ordinated, then you will get a lower degree of solution than you otherwise would.

Mr. MILLAR: In other words, it is simply that the problem cannot be analysed from the viewpoint of the railroad only?

Mr. GORDON: That is my point, and if it is analysed only from that point of view, then you will get "suboptimization". You will get less benefit out of the solution than you otherwise would.

Mr. HORNER (*Acadia*): It is a beautiful word.

With regard to your services and your concern, you are more or less obligated to provide this in many areas. Do you have this same feeling of obligation with regard to your trucking interests? Do you feel obligated in the trucking interests generally to provide this same service to the people?

Mr. GORDON: I bump up against this every time you mention trucking. I would ask the indulgence of the committee not to have me answer any question on trucking until I have made a statement that, on the advice of counsel and on the advice of our legal department, I must make. I am obliged to make this statement to you, so if you wish to deal with trucking I will deal with it then.

Mr. HORNER (*Acadia*): I do not want to deal with trucking yet but I am just trying to tie in the obligation to provide a service. If your statement will deal with this, I will forgo my question.

Mr. GORDON: The obligation to provide a service is a general obligation where Canadian National Railways are located. We accept that we have an obligation to provide an adequate service. It is not necessarily a railway service; it might be provided by somebody else. This is where we get back again to the McPherson commission report, because if it is found that we are providing

a service in which we are losing money and there is no logical alternative, then, as I understand the legislation, they will say to us "You continue the service, and we will pay your losses."

Again, I am speaking subject to what the legislation is going to say. That is what the report said.

Mr. HORNER (*Acadia*): Going back to your statement on the integrated trucking service and providing a service, I was trying to arrive at a conclusion or otherwise as to whether you would be obligated or feel obligated to fill this gap.

Mr. GORDON: It depends, but not necessarily by trucking. It is a service.

Mr. HORNER (*Acadia*): I have one further question on services and I will forgo any questions upon the obligation under trucking right now.

I notice that the use of containers was expanded in certain operations. This is a new innovation on the part of Canadian National Railways. How is it going? How big an expansion is it, and is it being accepted by the shippers concerned?

Mr. GORDON: It is pretty much in the embryo stage at the moment. We see a good potential for it but, mind you, it has been working for quite a number of years in Newfoundland and we have devised changes in the containers there too. It is a regular part of our system in Newfoundland. In Newfoundland, we have 530 aluminum containers in use already. This is something we think we can develop.

Mr. HORNER (*Acadia*): Particularly in the movement of one cargo from one means of transportation to another, I would think.

Mr. GORDON: It would be valuable there too, yes.

Mr. HORNER (*Acadia*): How is it accepted by the workers? I am thinking of the workers who have to move the containers.

Mr. GORDON: They are quite happy with it. It is very easily done with fork lift trucks and so forth. We are finding more and more that our workers appreciate and realize that traffic is traffic and that traffic means jobs, no matter how it comes.

The CHAIRMAN: Mr. Rock, have you a point?

Mr. ROCK: Yes, Mr. Chairman. I believe when we came to the item about freight service you made a statement that we could talk on all of these.

The CHAIRMAN: No, no; one item after another. We finished sales a while ago and we are now discussing services.

Mr. ROCK: I think most of the members did speak in general on a lot of these things.

The CHAIRMAN: No, not up to now.

Mr. HORNER (*Acadia*): I was directly discussing service.

Mr. ROCK: No, I am not bringing you to order, Mr. Horner; it is just the fact that many of us spoke about equipment and express freight.

The CHAIRMAN: No. I think I have been pretty much on the line in this one.

Mr. BEAULÉ: I move adjournment.

Mr. ROCK: We have been speaking of freight, and that is a service.

The CHAIRMAN: No, we have been discussing sales.

Mr. PASCOE: May I ask one supplementary question? This is supplementary to Mr. Horner's question and it might be repetitious to a certain extent.

Two years ago in the committee we had a discussion on the master grain handling plan. At that time I asked if the railway would be interested in having large trucks to fit in with this, and your reply, Mr. Gordon, was that that would need to be studied. My question now is whether you have had

any studies made since then. Is it just a general study or have you had any detailed study with other interested parties in regard to that? That was two years ago.

Mr. GORDON: You are talking about the master grain handling plan.

Mr. PASCOE: Yes, the master grain handling plan whereby the grain would be trucked from country elevators to central elevators.

Mr. GORDON: No, we have done nothing further on that.

The CHAIRMAN: Mr. Rhéaume.

Mr. RHÉAUME: I have just a general question and I can ask it probably under services although the same question applies to just about all operations of the railway. I will ask it specifically under services.

It seems to me that the thread running through all our questions, Mr. Gordon—and I want you to correct me if I am wrong—is the recurring theme that it is pretty important that the government immediately consider implementing the MacPherson recommendations, and indeed that in this area, as in just about every other area we have discussed, Canadian National is expecting immediate action. Canadian National Railways have even geared their staff to this. I see the expectation of this legislation recurring many times in your answers and even in your report, the expectation of something being done right away.

Mr. GORDON: Yes, we have been expecting it for the last year—hoping and expecting.

Mr. RHÉAUME: Then Canadian National Railways, as an important and large company operating in Canada, would be distressed if the legislation were to be shelved?

Mr. GORDON: I can go further than that. On this particular subject I can be presumptuous enough to speak for the Canadian Pacific Railway because I am sure we both have the same view. We are both anxiously awaiting the implementation of this legislation.

Mr. RHÉAUME: So if there is truth to the press report today that the legislation is to be shelved, this would be not only a source of distress but would perhaps modify some of the things you have been saying?

Mr. GORDON: Yes, it would be a very distressing thing in regard to many factors if the legislation is delayed. There would have to be compensations in relation to what that means. I have had no conversation with the government that leads me to believe that the legislation has been temporarily shelved. I do not know anything about it. I do not believe all I see in the papers. But if we are advised formally that the legislation is to be delayed, then I think Mr. Crump and I would feel it necessary to talk to the government and find out what is involved because it will have a very serious impact upon us in respect of the money situation and many other things.

Mr. RHÉAUME: For the record I want to advise Mr. Gordon what it is to which I am referring.

The CHAIRMAN: I think, Mr. Rhéaume—

Mr. RHÉAUME: I am not referring to a rumour. I am referring to an article that appeared in the *Globe and Mail* this morning.

The CHAIRMAN: I think it has been referred to by someone else.

Mr. RHÉAUME: I just want to indicate to Mr. Gordon what it is. It is a story in today's *Globe and Mail* which says that an official in the office of the transport minister, Mr. J. W. Pickersgill, said he did not know when the legislation would be brought forward and that the debate on the flag must be cleared out of the way first. It would be important, if it is not to be proceeded with, for your company to know right away, Mr. Gordon?

Mr. GORDON: As we stand now and, as far as I know, as Canadian Pacific stands now, we have been told that legislation is included in the list of legislation slated in the house. I do not know of any change in that.

Mr. RHÉAUME: If it were shelved it would be a serious blow to Canadian National Railways and to the Canadian Pacific Railway?

Mr. GORDON: If it were, both Mr. Crump and I, I think, would feel it necessary to have a talk with government with regard to the implications which flow from such a decision.

The CHAIRMAN: Are we through with services?

Mr. FISHER: Mr. Gordon, have you and the Canadian Pacific Railway in concert any joint appraisal of what effect the elimination of the bridge subsidy will have upon shippers within the bridge territory itself?

Mr. GORDON: Yes. You asked a question before, I think, on the subject of the East-West subsidy, and perhaps I can answer the whole thing at one time.

Your previous question—and I may as well dispose of it now—was in regard to the question of the rate. What has happened there is that the subsidy is fixed at \$7 million and, because it is a fixed subsidy, the Board of Transport Commissioners has found it necessary to adjust it from time to time in relation to the volume of traffic because they cannot keep the rate steady, and there have been eight changes or adjustments both up and down in regard to the actual subsidy paid. The effect of the board order issued in that respect is a decrease or increase in their rate reductions in order to maintain the aggregate subsidy at a figure of \$7 million. Have I made myself clear?

Mr. FISHER: Yes.

Mr. GORDON: You say what would be the effect when that subsidy is eliminated. I just do not know, but I would suspect that it would have an effect in decreasing our volume.

Mr. FISHER: We are concerned with that. We have a number of new enterprises, not just in my constituency but in all northwestern Ontario, particularly saw mill operations. The margin that enables them to operate is very narrow because of the very strong competition from western lumber. Very substantial expenditures have been made recently both on the south and north lines of Canadian National. Canadian Pacific does get some of the traffic. These people are very worried about the effect of the removal of the bridge subsidy. I am sure they are going to be down here protesting it when it is before the committee, and it may be a useful process. However, I think some encouragement might be given them if they felt the railways, in concert, were prepared to look at their situation and if they considered the railways would have sufficient flexibility under the new situation to give some kind of incentive rates, or at least an undertaking to look at the possibility of some kind of incentive rates to enable them to keep in business.

Mr. GORDON: We will certainly do that. In any cases where these artificial subsidies are eliminated it will be a practice to investigate very closely how we continue to hold the traffic.

We are not just going to have an automatic adjustment of the rate. We want to see what needs to be done to hold the traffic. If we cannot produce a compensatory rate, then that is it. If the competition is going to take it away from us, that is one thing, but we will most certainly consider the problem of the particular enterprise not only to retain the traffic for the railway but to assist them to reach their market on a basis where they can be competitive.

Mr. FISHER: In this question, how close is your interaction with the C.P.R. since you both tend to serve, not identical points but generally, the same region? Will there be a serious attempt on the part of the railways in concert to keep their rates at a level, or is there a likelihood of some kind of bidding developing?

Mr. GORDON: I do not think it will work in the way that there will be much bidding in connection with the railway freight rates as between the two railways. I think we will reach a rational point where the rate will be a common rate because whoever quotes it, it will be met, and so there will be an automatic level established in that way.

Mr. FISHER: That is all the questions I have on that.

The CHAIRMAN: Are we through on "services and equipment"?

Mr. HORNER (*Acadia*): Not on equipment. I would suggest that we finish with services and that we break for lunch.

The CHAIRMAN: Are you through with services? We will go on with equipment at 3:30 p.m.

Mr. MACEWAN: I am on your list for equipment.

The CHAIRMAN: You are always on the list if Mr. Horner gives you a chance. The meeting is adjourned until 3:30 p.m.

#### AFTERNOON SITTING

THURSDAY, June 18, 1964.

(Text)

The CHAIRMAN: Order gentlemen, we have a quorum.

(Translation)

Mr. BEAULÉ: Mr. Chairman, before we proceed with this meeting, I am wondering if we could not sit earlier tonight, at 7.30 instead of 8 o'clock, due to the fact that Mr. Gordon would like to be in Montreal tomorrow on business. The work of the committee would progress more rapidly if we could sit at 7.30 instead of 8 o'clock.

(Text)

The CHAIRMAN: You have heard the suggestion of Mr. Beaulé that we should sit this evening at 7.30 instead of 8 o'clock in order to see if we cannot finish and allow Mr. Gordon to return to Montreal.

Mr. HORNER (*Acadia*): I am agreeable to that suggestion.

Mr. LESSARD (*Saint-Henri*): If that is put in the form of a motion I will second it.

Mr. HORNER (*Acadia*): I would be prepared to be here at 7 o'clock, Mr. Chairman. The Pearson film is being shown at 8.15 and I would like to get to it. However, I do not like to interrupt my duties here and I will be here.

The CHAIRMAN: Then it will be 7.30.

Mr. LLOYD: There may be another investigation in the privileges and elections committee.

The CHAIRMAN: On adjournment, gentlemen, we were on equipment. Would you proceed, Mr. MacEwan.

Mr. MACEWAN: In connection with this matter, I would like to make a short statement on some criticism which has been levelled at the Canadian National in respect of certain types of equipment. I believe it was answered in the press last winter and it mainly was to the effect that some of the United States cars which were rented by the Canadian National and used by it on the Canadian lines for transporting mainly perishable goods, such as the spuds from Prince Edward Island, were not as efficient or as good cars as the Canadian ones, and I am wondering if we might have some comment on that.

I would ask you to comment also on the fact that the cars used on Canadian lines in ratio to the United States cars were at one point 10 United States cars to one Canadian car. Also, I believe it was stated that if new equipment was put on the line by Canadian National to close this gap this would increase the transportation costs of these products. Could we have some comment on these matters, Mr. Gordon?

Mr. GORDON: I dealt with this matter when I was in Prince Edward Island just recently and met with a group in connection with this very point.

It is perfectly true the Canadian National reefer car is a better car, generally speaking, than the American car, but it is a pure matter of economics as to how many Canadian National cars we should provide ourselves in respect of the traffic available. It has been a traditional practice to use American reefers on a rental basis because they are quite satisfactory for moving the product. We find, generally speaking, it is cheaper than making a very large capital investment that would be involved in enlarging our fleet of Canadian National cars.

Mr. MACEWAN: I noted during the past year in the publication *Track*, which is put out by the Canadian National and covers their employees, that two new types of cars were brought out, the prairie schooner and the high beam car. I was wondering whether these cars are now utilized and are proving fully successful in your operations?

Mr. GORDON: Perhaps you could answer that question, Mr. Demcoe.

Mr. DEMCOE: The schooner is being used. I presume you have not seen them on the railroad. This is the low gondola with either a steel or canvas cover over the top of it.

The high beam car is still in the experimental stage.

Mr. MACEWAN: Finally, I wanted to say this. There has been a suggestion that there would have to be a major replacement of diesels on the Canadian National and three factors responsible for this were listed: the first factor was the shorter life of the diesels. The life of the diesel was estimated to be about 20 years. It is shown that some of them are spending too long a time in shops because the parts are no longer readily available for them.

The second factor is the heavier work load and in view of the heavier trains that are running now heavier diesel units are required. Instead of the 1,600 horsepower units it has been found that 2,200 to 2,500 horsepower units give better service and it has been suggested that savings from using the larger and more powerful diesels would offset the earlier write-offs of the older units.

The third factor is the increase in traffic. I understand that during the past winter the Canadian National rented about 20 diesels from American railways. I was wondering if any planning has been done in this connection or is the feeling in Canadian National, with the matter of recapitalization before it, that the necessary legislation on the MacPherson royal commission report should come forward and be studied before any real planning is done in respect of the diesel program.

Mr. GORDON: Are you reading from a trade magazine?

Mr. MACEWAN: Yes, I am reading from the *Financial Post*. I have not the date of it but it was sometime in February or March of this year.

Mr. GORDON: Yes. It sounds like a newspaper article by a manufacturer of diesels who hopes to sell more diesels. But, generally speaking, our diesel inventory is satisfactory. There may be some odd purchases or replacements arising out of traffic requirements but, generally speaking, we are not dissatisfied with our inventory as it stands. Is that not correct, Mr. Demcoe?

Mr. DEMCOE: That is correct. We have four units on order now and they are for replacement purposes.

Mr. MACEWAN: That is the heavier units?

Mr. DEMCOE: Yes.

Mr. MACEWAN: Finally, as I understand it, the payment of rental on United States cars does not cost as much as if you went out and bought more cars for the Canadian National lines.

Mr. GORDON: No. I think the reference to that was we have an insurance arrangement, so to speak, wherein some of the American railroads make available to us diesel locomotives if the grain shipments reach a point where we can not handle them. I cannot remember at the moment whether or not we took many of them. How many were there?

Mr. DEMCOE: There were forty.

Mr. GORDON: It was a short term insurance arrangement in that respect. But, if we found in the long run, of course, that we needed more diesels we would not continue renting them; we then would feel it necessary to invest capital and buy new diesels if there was a long, steady increase in traffic.

Mr. MACEWAN: And, I presume, the same would apply to your other devices and rolling stock.

Mr. GORDON: Exactly.

(Translation)

The CHAIRMAN: Mr. Beaulé.

Mr. BEAULÉ: Mr. Gordon, as you know, there are several pulp and paper mills in the Quebec district. Since some time, there is a shortage of freight cars for the transportation of this product, and I know that the International Building Paper had to turn down several freight cars which were not sufficiently clean to carry paper. Have steps been taken to improve conditions at the pulp and paper mills respecting the transportation in freight cars?

(Text)

Mr. GORDON: Well, this is a continuing question in the railroad. It is part of our day to day problem. We have spotted shortages at times but, generally speaking, our cars are quite sufficient to take care of the traffic that you mentioned. We already have worked out a very good system of specifying special cars for the newsprint traffic; these are the yellow door cars that we originated following our own research work on them. These yellow door cars are specifically kept in shape to ensure that they are satisfactory for the transportation of newsprint.

(Translation)

Mr. BEAULÉ: But when there is such a shortage and employees must clean the freight cars, the company must pay overtime for this purpose, and when the cars reach the pulp and paper mills, the authorities at the mills refuse to accept them, thus causing double expenditure. Are you taking steps to avoid

this situation in the future, so that, when cars are being forwarded, and if you do not have those you mentioned, at least the other cars are clean and may serve a useful purpose in transporting those products?

(Text)

Mr. GORDON: Well, our policy is to keep our cars in such condition that they are satisfactory for the trade. But, as I say, this is one of the facts of life in the railroad business. Unavoidable situations of that kind do arise. However, we have no general problem which is chronic in any sense. Is that not correct, Mr. Demcoe?

Mr. DEMCOE: Yes. In this case there probably was an improper classification. There may be one or two cars that sneaked into a batch that was sent up to the C.I.P. and overlooked and when opened up for loading they were found unfit and had to be returned. But, we clean them and, if necessary, we even upgrade them.

The CHAIRMAN: Would you proceed, Mr. Horner.

Mr. HORNER (*Acadia*): In respect of equipment I wonder if Mr. Gordon would make a comment. I notice in this paragraph he deals with what appears to be rather crude improvements in respect of the hauling of grain. Has anything been done to improve the handling of grain generally in recent years?

Mr. GORDON: Are you speaking in terms of the kind of box cars we have.

Mr. HORNER (*Acadia*): In terms of cars there has been a tremendous increase in the size.

Mr. GORDON: Yes, that is right. You see we made a temporary arrangement in respect of the plywood covers on the gondolas and this has given us some ideas on whether or not a redesigning of the car might be advisable. But, we have no particular new program in regard to completely new styles of equipment for handling the grain.

Mr. HORNER (*Acadia*): You are speaking of redesigning the cars. It always has amazed me why they do not fill the box cars from the top. Have you made any studies in that connection and do you feel that this would speed up the handling of grain if there was any major change made in box cars.

Mr. GORDON: Mr. Demcoe, that is a practical operating question for you.

Mr. DEMCOE: The United States roads have started to use covered hoppers for handling grain, and we intended to use some of ours last fall but we just did not have sufficient on hand to use them both for grain and other commodities.

Mr. HORNER (*Acadia*): Is this a modified prairie schooner type of car?

Mr. DEMCOE: It is a covered hopper, the same kind of car as that which we now use for hauling potash and for hauling silica sand, salt, sugar and flour. It is a steel car and it has hoppers on top. In fact, we are trying a car out this week that has an opening along the full length of the car. One puts a spout at one end and fills it up from one end to the other; it is what they call a trough type hatch.

Mr. HORNER (*Acadia*): I have often wondered why they did not have this type of thing.

Mr. DEMCOE: We have just got one from the Pullman Car Company in Chicago and we are trying it out in the potash business.

Mr. HORNER (*Acadia*): Have there been any major changes in the handling of grain at the terminal end, or is this all pretty well automated now?

Mr. DEMCOE: No, there are a number of elevators that still use hand methods for unloading grain from box cars. There are a number of companies

which have mechanical machinery that picks up a car and then rolls it from side to side and tips it over, and they unload it in about four or five minutes. In fact, there is one in Halifax.

Mr. HORNER (*Acadia*): Are Canadian National Railways connected with the grain handling facilities on Vancouver island? Is it Canadian National that has to ferry cars across?

Mr. DEMCOE: That is right.

Mr. HORNER (*Acadia*): Has there been any effort made on the part of Canadian National Railways to encourage the dismantling of the elevators in Victoria and the building of larger facilities in Vancouver? It looks like a costly arrangement to take freight cars right on to boats and right across and then to handle them there again.

Mr. DEMCOE: We are trying to convince the people concerned that it is much more economical to handle it from the mainland, either in Prince Rupert or in Vancouver.

Mr. HORNER (*Acadia*): While we are dealing with this point I might as well ask what type of agreement Canadian National Railways have concerning these elevators on Vancouver island. Is it going to run out soon or is it going to go on?

Mr. DEMCOE: I have not the details regarding the elevator on Vancouver island.

Mr. HORNER (*Acadia*): But you do agree that it is a costly way of handling?

Mr. DEMCOE: We do not get any additional revenue for hauling it over.

Mr. HORNER (*Acadia*): You do not receive additional revenue for handling it?

Mr. DEMCOE: No.

Mr. HORNER (*Acadia*): It is an interesting point, and I bring it to the mind of Mr. Gordon because he, in his Winnipeg speech, outlined many changes that could take place on the prairies in regard to the method by which the farmers handle grain, and yet there are still many improvements that might be made by the railways.

Mr. GORDON: That is right, and in my speeches I emphasize that I want all the people to get together so we can all contribute and learn one from another. We can learn from the farmer, and I hope the farmer will learn something from us.

Mr. KORCHINSKI: I have a question with regard to the type of railway box cars that are designed. I was just wondering why it is not possible to design a car which will open up at the top. It is quite easy to load a car of dry grain but when one is handling damp grain it is more difficult. Most of the elevator agents find difficulty in spreading the grain around inside the car and trying to load past it. Why cannot the top open up so the cars can be filled up to capacity?

Mr. DEMCOE: That is what we did in the cars to which Mr. Gordon has just referred. We had a plywood roof put on those and, I think, there were four hatches located at the quarter points in the car so one could take one's spout and move it into the four different locations to fill the car. Then, when it arrived at the elevator it was unloaded from the bottom by opening up the hoppers.

Mr. GORDON: We have a committee of officers charged specifically with the duty, in conjunction with our research work, of examining and testing every form of suggestion and idea of which we might think ourselves or which may be brought to our attention. That is constantly part of our research work. So, if you have any ideas along this line, let us have them. Let us have them and we will test them out and examine them. I cannot give you offhand the

answer to your question, but all the time we are testing and examining things that are sent in to us, so the question of improving the design of cars or improving the utilization of cars is a big part of our business in the research department. In recent years there have been far more special types of cars put into operation than there has ever been in the history of the railroad.

Mr. KORCHINSKI: I have never seen any of the prairie schooner type cars. Is there a provision for a catwalk on top?

Mr. GORDON: For what?

Mr. KORCHINSKI: For a walk on the top of the car?

Mr. DEMCOE: You can walk on top.

Mr. GORDON: I would suggest that you had better be a cat to do it; it really is a catwalk.

Mr. KORCHINSKI: When you transformed some of the ore cars, what was the capacity in comparison with some of the other box cars?

Mr. DEMCOE: We have two types, I think—the 50 ton and the 70 ton ore cars.

Mr. KORCHINSKI: How does that compare with an ordinary box car?

Mr. DEMCOE: They run from 40 to 60 tons, and we are buying some new ones now that will be 70 tons.

Mr. KORCHINSKI: With regard to transport of automobiles, I notice that you were able to transport a lot more cars than a few years ago, let us say. I think what you have done is to extend the length of the car and so on. Is it not possible to do the same thing with box cars for hauling grain? Is this what you are doing now?

Mr. DEMCOE: Yes, we were one of the first railroads to lengthen our cars to approximately the same length as the passenger cars. The passenger car is approximately 85 feet long, and that is approximately the length of the tri-level car which is the open type used for handling automobiles.

Mr. KORCHINSKI: Does the fact that on some branch lines you have a track that is not very good make any difference to the type of cars you can put on it? There are different types of rail on these tracks and different weights of rail. Does that affect the type of box car you can design?

Mr. DEMCOE: That is right.

Mr. KORCHINSKI: So, the fact that you have replaced the rails on some of these tracks would result in your being able to design cars that could take more grain?

Mr. DEMCOE: It is not only a case of the rails but also the capacity of the culverts and the bridges as well. In many cases it is really the bridge restrictions that are the major factor, and until we renew or strengthen the bridges we cannot operate heavier cars or locomotives over those lines.

Mr. KORCHINSKI: This is very interesting because it seems to me that in many of these branch lines—which are perhaps candidates for abandonment—you do not improve the services and because of that you cannot put on a bigger car, yet in your Winnipeg speech you say there will be more stoppages because you cannot spot so many cars at one time and if you could spot five cars normally you would have to take on 2,000 or 10,000 bushels of grain and so on and you might require another stop. If you had bigger equipment you would be able to stop less at those points. All this is important to those lines. I wonder whether you are voluntarily stopping those lines. These must be considered. I am sure you must have considered whether you will improve the culverts in those areas and you must have an idea what you are going to do five or ten years hence.

Mr. GORDON: The traffic now available or the traffic potentially available? If we could see that we would get more traffic, then we would be prepared to upgrade the line in question; but there is no point in just upgrading the line in order to have a higher grade if the traffic is not there.

Mr. KORCHINSKI: But there must be lines which you are allowing to deteriorate because—

Mr. GORDON: Yes, because of the fact that the traffic is not there.

Mr. KORCHINSKI: In the course of a few years you will say that it will absolutely cost too much to bring it up to the standards you have established.

Mr. GORDON: You do not upgrade a line without upgrading the cost involved. You have to spend a large amount of capital to upgrade a line, and it becomes a question of whether or not it is worth while. You do not reduce the cost just by upgrading the line. If the traffic volume is there, it may be that it would justify the expenditure involved, but again, with increased expenditure, you get higher interest cost, higher maintenance cost, and so on.

Mr. KORCHINSKI: By the same token, you do not reduce the cost by using smaller cars. If you normally used larger cars, you would have lower costs.

Mr. GORDON: The two things are relative. If you have a lower grade track and smaller equipment, then your capital investment is in relation both to the equipment and the track. If you upgrade the line and have a higher capital cost for an upgraded line, that becomes cost against traffic, and if you do not get the traffic, you will not break even. It is a matter of pure economics.

Mr. KORCHINSKI: It depends. If you look at any particular line, there may be certain economies that one may suggest.

Mr. GORDON: You can rest assured that if the spending of money to upgrade the line were to reduce the cost of handling the traffic on that line, we would do so.

Mr. KORCHINSKI: Let me suggest this: For example, take a line where you had a 60 pound rail over which you transported, say 2,000 bushels of grain. If you had a 100 pound rail on that line you would not have much breakage of rails and therefore your maintenance would be smaller.

Mr. GORDON: That is taken into account.

Mr. KORCHINSKI: But if you put a big car on a 60 pound rail, you are going to have greater maintenance costs and therefore your costs are going to climb and climb to the point where it would no longer be possible to maintain this line.

Mr. GORDON: If the situation were such that we would get more traffic on the line, if, for instance an improved line were to encourage a farmer to grow more wheat and therefore more wheat would come off on that line, then it might be worth while, but we have to balance the costs against the particular traffic.

Mr. KORCHINSKI: What you are suggesting is that wheat hauling is quite profitable.

Mr. GORDON: I am not suggesting that.

Mr. PASCOE: Mr. Chairman, I had some questions on these box cars for grain but they were pretty well answered. However, I will pursue it a little further. In the report here there is mention of a thousand hopper car with plywood covers converted to hauling grain, and it says, "on temporary basis". In view of the fact that there is a great need to fill our contracts before the end of the crop year on July 31, are they still in service?

Mr. GORDON: To this extent that, first of all, we have handled all the grain offered to us without the slightest difficulty in regard to equipment. These cars

have been converted in the form of an experiment. They are covered with plywood and used for the haulage of grain on a seasonal basis, and when they are put back into regular service most of the covers, as I recollect it, are salvageable.

Mr. DEMCOE: We removed all the covers this spring, and those hopper cars that we used for hauling grain during the late fall and the winter months are now back in the sand and gravel business.

Mr. PASCOE: That is the part I wanted to know. There is another part here regarding 100 covered aluminum hopper cars that you are ordering. I hope that is for the growing potash business in Saskatchewan.

Mr. DEMCOE: Yes.

Mr. PASCOE: I must warn you there will be a great demand for them.

Mr. GORDON: We are closely in touch with that situation, and again I can assure you it will not be lack of equipment that will prevent our handling of the traffic.

Mr. PASCOE: I want to point out that the mining system in Moose Jaw is coming into effect this fall.

There is just one more point with regard to the ice refrigerator cars that are being converted to mechanical refrigeration. Where were you getting the ice when these were ice refrigerator cars? Are you putting ice firms out of business?

Mr. GORDON: We are certainly reducing their business.

Mr. PASCOE: Was the ice bought from some commercial firm?

Mr. GORDON: Yes. I do not recollect anywhere where we produced our own ice.

Mr. DEMCOE: We have ice every 300 miles along the railroad to provide for the ice refrigerator cars, and the idea of the mechanical refrigerators is to obtain a better uniformity of temperature so that when a customer says he wants a car at 32 degrees, he can get it at 32 degrees and it will be maintained at 32 degrees. If he wants it at 42 degrees, we can set it at 42 degrees, whereas with an ice refrigerator car you have quite a variation in temperature.

Mr. GORDON: These designs, by the way, were designed and worked out by our research people. We produced these cars ourselves.

Mr. PASCOE: Is it the idea that they will eventually all be mechanically refrigerated?

Mr. GORDON: I would think in the long run the ice car would be a thing of the past.

Mr. LLOYD: Mr. Gordon, at the port of Halifax last winter there was a time when grain movements were not moving into the elevators in the quantities that one would have expected having regard to the projected movement of grain that had been announced. Do you have any knowledge of what happened at that time? Was it owing to a lack of cars, or did the trouble go back to the origination of the movement of grain? I believe there was some inquiry.

Mr. DEMCOE: I think it was owing to lack of ships to take it away from the elevators. It was not because the railroad could not deliver the grain from the bay ports to Halifax.

Mr. LLOYD: You say it was owing to lack of ships? We understood that the Russians had arranged for their own hulls to move grain, but it was not our impression that it was a lack of ships that delayed the grain movement.

Mr. DEMCOE: We always had sufficient cars on hand for each day's unloading.

Mr. LLOYD: I leave it to my colleague. He had information to the contrary.

Mr. GORDON: The targets in regard to the movement were set for both railways by the Wheat Board, and there was a stipulated target day by day on how much wheat they wanted picked up and the port to which they wanted it delivered. I can assure you that the C.N.R. not only met those targets but were, in some cases, considerably in advance of them at all times.

Mr. LLOYD: There was a period when we were watching very closely the input to the grain elevator, and there was reason for concern. I notice that you describe your conversion of certain types of equipment from their customary use to grain movement and I have listened to the explanations you have given, but this coming year are you equipped to meet demands for grain movement to winter ports in the Atlantic region, in Halifax and Saint John?

Mr. GORDON: We have no worry on that score. We are fully satisfied we will have ample equipment to move the grain in accordance with requests.

Mr. LLOYD: And this of course has been owing to your liaison with, I suppose, the Canadian wheat board? Do you know the likely volume of traffic movement?

Mr. GORDON: Yes, they set the targets for us and we meet them.

Mr. LLOYD: May I ask one very parochial question? There is a series of freight sheds in the north end of Halifax, right on the fringe of the development area at the north end of upper Water street. Those buildings were severely shaken owing to the big explosion in Halifax in 1917. I do not think they have been repaired since. Are you proposing to abandon them? Perhaps one of your officers might know the answer.

Mr. GORDON: I do not know the answer to that. Mr. Demcoe do you know what the situation is?

Mr. DEMCOE: Where our freight sheds are located?

Mr. LLOYD: Almost to the dockyard, on upper Water street.

Mr. GORDON: Are those surplus?

Mr. DEMCOE: We are using the freight sheds but there is no plan at the present time. Eventually we intend to get the L.C.L. and the express moved together, and when they are put under one roof we will probably get rid of the sheds.

Mr. LLOYD: I do not want to take up the time of the committee now to pursue that matter, but I would appreciate receiving a communication from you, Mr. Gordon as to what your plans are in respect of this problem.

Mr. BELL: May I ask a question with respect to the charges made last winter about glass being in the grain?

Mr. GORDON: Yes.

Mr. BELL: This was quite well known to your public relations, and I would like to ask if you did investigate the matter and if you have anything readily available by way of comment?

Mr. GORDON: The railways were never involved in those charges. The story, as I have it, is the glass was alleged to have been found in the ships. The story was very much exaggerated. It was traced back to some bottles of beer, or something of that kind, which had been knocked into the grain accidentally. On the final score it turned out to be largely a myth. The allegation never affected the railways. It was never said that the glass got into the grain while the grain was in the hands of the railways.

Mr. BELL: The story we heard was that it all came from the lakehead, around Fort William.

Mr. GORDON: That can readily be disproved because surely there are no beer bottles coming from Fort William.

The CHAIRMAN: Mr. Regan.

Mr. REGAN: Mr. Gordon, turning again to the Halifax area, is there an optimum distance established from a terminal, particularly from a waterfront terminal where you load ships, to the marshalling yards? At the present time your marshalling yards are located all along the shore of Bedford basin on land that eventually will become highly desirable for industrial or other types of development. Do you have in mind a long range plan on development, including the establishment of larger marshalling yards in that area, or would they be at some distance away? Must they be within a certain distance of the waterfront?

Mr. GORDON: No. The marshalling yards are always designed in relation to the type of trains we have to marshal. I would assume in the area mentioned it has been pretty well established by now what we really need.

Mr. VAUGHAN: Do you mean that you think it is in the wrong place?

Mr. REGAN: I may think it is in the wrong place. But are you aware of the representations of the Rockingham Ratepayers' Association to the effect that eventually there will be a bridge across the narrows, and that the marshalling yard should be located somewhere in the wilds behind Dartmouth?

Mr. GORDON: Yes, I have heard it; but the matter is not actively under consideration.

Mr. REGAN: There is no active consideration being given to transferring the marshalling yards at the present time?

Mr. GORDON: Not to my knowledge.

Mr. REGAN: You are not in a position to comment on the feasibility of such a situation, should the value of the present land become greater?

Mr. GORDON: If the value of the land should increase, it would be considered at once. The position could be changed at any time.

The CHAIRMAN: I do not think we can pursue that subject too much, because we were in yards some time ago.

Mr. REGAN: I considered it as being equipment.

The CHAIRMAN: I think we would have to reconsider it.

Mr. REGAN: I shall debate it at ten o'clock, then.

The CHAIRMAN: Now, Mr. Marcoux.

*(Translation)*

Mr. MARCOUX: I will ask a question which is in order; I hope it was not asked previously. It was stated recently that a new train would be used on a trial basis on the Ottawa-Montreal line. Meals will be served on that train. It was said that forty-eight passengers, instead of forty, could eat at the same time, and that the kitchen would be equipped with a short-wave communications system, or something of the kind. From this precise fact, I would like to obtain information concerning a general matter: On what basis do you determine whether or not the new equipment will be economically profitable? On what do you base yourself, after what period of time and after how many experiments, to determine whether or not such equipment is good, useful and even necessary? For instance, could the equipment used between Ottawa and Montreal, in view of the fact that the trip lasts only two hours, be used between Ottawa and Toronto, where the trip is much longer and a lesser need for efficiency is required? Are there general principles which determine the method of evaluating the efficiency of new equipment?

(Text)

Mr. GORDON: Well, the general principle is that we are experimenting with all sorts of ideas to see how the public responds. The real test is whether the public will use the equipment in the manner we have designed it. There is no way I know to test it apart from actual experience. After we have formed an idea of what the passengers would like to have, we will conduct an experiment, such as we did the other day. You were down at the luncheon at the Union Station the other day, were you not? Oh, I am sorry, you were not. But we had some members of the committee down there for lunch at the station and they saw the car right there. There was a meal cooked for them by the microwave oven, which does it in a matter of seconds. We shall see how the public responds to it before we go further. But if the public likes it and takes to it, we might very well decide to convert more cars in that respect.

(Translation)

Mr. MARCOUX: But is it only a question of efficiency or could it be, for example, that the old dining cars can serve as many passengers during a longer period, for instance three instead of two hours? Will these changes be made even on lines which require more time between two points, i.e. Ottawa and Montreal? This takes two hours. Certain trains make it in three hours.

(Text)

Mr. GORDON: Well, it is a combination of the factors really. The amount of time available between Montreal and Ottawa is, as you have said, two hours, and we want to get it done as quickly as possible. In addition to that there is the cost of cooking. Whether with the pre-cooked meals and with the means whereby they are readily heated we can cut down the cost of the meals is something which is now undergoing tests. The real matter is what the public likes and what they will buy. We are busy testing all sorts of ideas along that line. We have another test where we are making one meal available instead of half a dozen selections, such as we used to have in the olden days. We used to have a very expensive method of providing meals on trains. I always felt that it was unnecessary, and that we might be able to condition the public not to expect, shall I say, hotel service, so to speak, when travelling on the trains. So long as they get a reasonable meal, that is all we think they should expect.

The air lines, for instance, have been serving one meal for some considerable time, and you do not get much choice at all. We are experimenting to see if the public will take a liking to it. We expect to receive complaints, but by and by we hope to educate the public to accept a reasonable service. In Europe on the trains there are various forms of providing meals. We are going to try to cut down on the expectation of the luxury which Canadians seem to regard as their traditional right.

(Translation)

Mr. BÉCHARD: Mr. Gordon, on the same subject, I wish to say that last Monday I experimented that new service on the Canadian National, and personally I prefer the former system. Therefore I can make comments.

(Text)

The CHAIRMAN: Mr. Rock?

Mr. ROCK: I would like to make some comments. I think it depends on how happy a person is in his selection.

The CHAIRMAN: Are you talking about equipment or services?

Mr. ROCK: I thought I was on the same subject on which Mr. Gordon answered Mr. Marcoux, that is, on equipment, and what is going to be put into equipment. Surely it is food.

Mr. RHÉAUME: We are on freight services, are we not?

The CHAIRMAN: We are talking about equipment now, but we can go into passenger services later.

Mr. ROCK: How did Mr. Marcoux get on to the question?

The CHAIRMAN: Order, order.

Mr. ROCK: He is talking about new dining cars.

The CHAIRMAN: He is talking about replacing equipment such as dining cars.

Mr. GORDON: In my opinion he should not have been, but he did.

Mr. ROCK: I think that my question was in order, but it was out of order at the end.

The CHAIRMAN: We are on freight services. Are we through with freight services?

Carried.

Now, express. I took note of your note.

Mr. HORNER (*Acadia*): I should like to ask a question in respect of the item "freight services", Mr. Chairman, if I may.

Is there a definite trend in the prairie provinces away from L.C.L. freight or express freight? Have you noticed a reduction in this type of service within the past few years on the prairie provinces?

Mr. GORDON: We are attempting to join together our express services and L.C.L. under one heading. I put on the record last year several pages of evidence in respect of the outline of our policy in this regard which can be found commencing at page 156 of the sessional committee hearings. I covered this subject in great detail, indicating our policy and outlook.

Mr. HORNER (*Acadia*): I will look up that evidence. I was not on this committee last year, Mr. Gordon, or probably I would not have asked this question.

Mr. GORDON: I think you will find that subject very thoroughly explained in that evidence.

Mr. HORNER (*Acadia*): On what page does that evidence commence?

Mr. GORDON: That evidence begins at page 156 of last years Minutes of Proceedings and Evidence.

Mr. VAUGHAN: I think your statement was made in 1962 and dealt with again last year.

Mr. GORDON: I am sure there is quite a lot of evidence on the record of last year in this regard.

Mr. MACEWAN: I should like to ask one or two questions in respect of a constituency matter, although the area to which I have reference I feel is quite large, having in mind this particular subject.

In the area of Stellarton, Westville and New Glasgow, in my constituency, there is an establishment for piggyback service and also an L.C.L. system as outlined here in your report. There has been a considerable amount of criticism in respect of the fact that the facilities there are inadequate. There is only a small building with a ramp there for piggyback service. The building is quite small and I am wondering whether the Canadian National Railways officials are looking into the matter of providing larger or more adequate facilities for that area. There is quite a bit of express freight in respect of the three or four towns in that area as well as the surrounding areas. Are there any plans at the present time in this regard?

Mr. GORDON: The whole area is in an experimental stage in respect of this whole question of freight and express handling through the master agency principle. I would also suggest that this is in a disorganized state at the present time because we are involved in quite a number of different situations. This is a very difficult time for us in this regard. You did mention Stellarton?

Mr. MACÉWAN: Yes.

Mr. GORDON: I was just looking for information in this regard and I find Stellarton is one of a group of towns that is involved in this general process of reorganization. I think you will see an improvement there during the course of the next year.

Mr. KENNEDY: Do not forget Truro.

Mr. GORDON: No, I will not forget Truro.

The CHAIRMAN: Mr. Marcoux?

(Translation)

Mr. MARCOUX: We are still dealing with the heading "Freight Services"?

The CHAIRMAN: That is correct.

Mr. MARCOUX: Can we talk about trucking subsidiaries?

The CHAIRMAN: Later on. Mr. Matte is next.

Mr. MATTE: Is it the same thing? This deals with services.

Why is it that the freight rates are often 50% higher than by truck, particularly with respect to small items?

The CHAIRMAN: Would you reserve that question for later?

(Text)

We are considering the item headed "Express Freight".

Have we concluded our discussion of the item covering express freight?

Mr. HOWE (*Wellington-Huron*): Mr. Chairman, in connection with express freight I notice that there is a master agency plan in existence. Has there been an improvement in revenue from express and L.C.L. shipments since you have been using trucks in that part of western Ontario from which I come, around Guelph, and have you recovered some of the business?

Mr. GORDON: I cannot answer this question intelligently at the moment because we went into the railhead principle or master agency principle to arrest a very alarming downward trend in our express and L.C.L. business. We are not far enough ahead in working out this very complicated reorganization, as indicated by the master agency principle, for me to really say more than that I do see we have stopped the downward trend. Whether we can swing back around will have to be demonstrated.

Mr. HOWE (*Wellington-Huron*): This system has not been in operation long enough to give any real indication; is that right?

Mr. GORDON: The system is not sufficiently completed to give a sound indication. In some respects we are fairly far advanced while in other cases we are not. The adoption of this system involves not only a matter of organization of physical facilities but requires integration of labour forces, new training, new clerical devices and the working out of documentation in respect of the movement of traffic. We have reached the stage of being in a situation where there is no clear picture, and we will have to be patient until we see how the experiment is working out.

Mr. HORNER (*Acadia*): Two years ago I think you told me the master agency plan was in the stage of testing in the mountain region. I understand this system is still on a test basis; is that right?

Mr. GORDON: The mountain region is an area where we feel we have demonstrated the success of this system. We are making good progress in that region.

Mr. HORNER (*Acadia*): There is an indication in respect of the Atlantic region that this system has been well received by customers and community interests?

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): While criticism may be premature I am of the opinion that many communities in my area feel that this master agency plan is going to reduce the business of the C.N.R. in those areas.

Mr. GORDON: I am sure there will be all sorts of opinions expressed until we really get this system functioning. At the beginning there were very serious objections in respect of various phases, but we have very seriously and honestly worked on the situation, and I think have improved public reaction to it very satisfactorily in the last year or so. We have had teams of officers out explaining the situation. These people are individuals with practical experience, and I am personally convinced that the system is going to prove to be of great success when we finally work it out.

The CHAIRMAN: Have we concluded our consideration of express freight?

Some hon. MEMBERS: Carried.

The CHAIRMAN: We will now consider trucking subsidiaries.

Mr. Gordon, do you intend to make a statement in this respect at this time?

Mr. GORDON: I think I may as well make this statement because it will, I hope, influence the type of questions asked by members under this heading.

Before responding to questions regarding our trucking activities, I would like to make the following observations.

When I appeared before the sessional committee in November 1962, control of Midland Superior and Husband Transport by Canadian National Transportation Limited (CNTL), while authorized by the provincial boards, had been delayed by appeals lodged by the trucking interests against the authorizing order of the Quebec transportation board. These appeals were abandoned in the very last days of 1962 and transfer of control of the two companies was completed forthwith. I emphasized before the committee that we were in a transitional period. Some of the evidence given by me at the sessional committee is capable of misinterpretation, particularly if considered out of context. My purpose now is to clarify the situation and the Railway's position in regard to its subsidiary trucking companies.

The separate corporate entity of each subsidiary has been maintained and each is operated separately from the Railway. None of the directors is a director of Canadian National Railway Company (C.N.R.) or CNTL, although the majority of the directors of each subsidiary are officers or employees of CNR or CNTL. All of the subsidiaries are subject to the jurisdiction of the various provincial regulatory boards in the same manner as other trucking companies with respect to the securing of permits, the filing of tariffs and establishment of rates. Each company has its own accounting, its own controller and its separate organization. While the accounts are kept separately, they are combined for purposes of our annual report. It is not our intention to indicate individual figures, as we would be placed in a disadvantageous position vis-à-vis our competitors. Each company has its own bank account, hires and pays its own employees. A few railway employees are on loan to the subsidiaries, but their services are charged for. The employees of the subsidiaries do not come under the C.N.R. pension plan. Each company has its assets, such as vehicles, offices, furniture, revenues from operations, and its own balance sheet. Each appoints

an independent auditor and in the case of the two most important subsidiaries (Midland and Husband), the auditors have no connection with the CNR or CNTL.

In so far as control is concerned, there is no day-to-day control or direction by CNTL. This is neither practicable nor desirable. There is competition between the Railway and these subsidiaries and this is encouraged. Success in the operation of the subsidiaries depends upon sound management and in most cases, management has been left to those individuals in charge at the time of acquisition. Each subsidiary uses and develops its own skills, and profits depend upon their proper exercise. Major decisions in regard to enlarging franchises, large purchases of equipment, borrowing money, etc. would only be made by the board of directors of these subsidiaries in consultation with Mr. Frank Gaffney, vice president of the highway services of the railway. There have been economies effected by joint use of terminal and other facilities, the expense of which is apportioned among the subsidiaries concerned, according to use.

The subsidiaries look to CNTL for their financing. All loans carry interest at market rates and must be repaid in the usual course of business as money is available. To date profits have been used to repay advances or for use as working capital. No dividends have been declared as yet.

I trust that these observations have accomplished my purpose, of clarifying the situation to some degree at least.

Our progress in the trucking business, operated in association with our railway operations and designed to give the shipping public the best transportation service possible, has been significant. It has, however, been beset with difficulties, not the least of which have been the tactics of the trucking associations in their avowed objective to drive the C.N.R. out of the trucking business. Their opposition to our applications to provincial boards is intense and bitter—their representations to federal and provincial governments equally intense and bitter and never-ending.

At the moment there is pending before the superior court in Montreal a legal action instituted by the Canadian Trucking Associations Inc., the trucking associations of Quebec Inc. and others against C.N.R. and CNTL. In this action the C.N.R. is unjustly charged with operating beyond the powers conferred on it by section 27 of the Canadian National Railways Act, inasmuch as it is claimed that C.N.R., through CNTL or its subsidiaries on the highway, is carrying on operations which are not in conjunction with, or in substitution for rail services.

In addition, in an application made at the beginning of this year before the Quebec transportation board by Midland Superior Express Limited for extension of its permits, the Canadian Trucking Associations Inc. and the trucking association of Quebec Inc. have raised the same question. The matter is still under advisement by the said board. At this hearing the trucking associations filed as exhibits copies of the minutes of the proceedings before the sessional committees in 1962 and 1963. In the action referred to above, a motion is presently before the court to amend the declaration by including the same exhibits as part of their evidence.

In view of this pending litigation and as advised by counsel, I do not believe that I should give any further answers to questions which may have to do with this litigation. There are questions of the relevancy of evidence, statements taken out of context and their meaning distorted, the intricacies of integration of operation and control of subsidiaries through stock ownership or otherwise, the effect of such control on the rights of CNTL and its subsidiaries to operate on the highways—all in issue in this litigation. These will be dealt with in the court proceedings where both sides are represented by counsel and the court

is in a position to rule on admissibility of evidence and its construction in regard to the problems involved. It is considered that in the circumstances that evidence pertaining to this litigation should be given in court.

The CHAIRMAN: Would you proceed, Mr. Fisher?

Mr. FISHER: Mr. Gordon, do you see anything paradoxical in the fact you are keeping these subsidiaries distinct and separate. Do you insist they are in competition with the railway lines in view of the fact that you are basically a railway operation. Now, I put it to you that if it is absolutely necessary from management's point of view that Canadian National should be in the trucking business, then it is hard to understand why it is necessary to keep these subsidiaries separate and distinct and in competition with the railway. I cannot see the value it serves.

Mr. GORDON: Well, that, of course, is the point I am trying to get over. It arises out of legal procedures required by provincial boards in the granting of franchises or permits and the control of operations under them. We attorn to local jurisdiction and in order to do that it is necessary, I am informed by our legal counsel, to keep these operations separate so that the permit is applicable to the particular operation.

Mr. FISHER: But, in most of the trends in recent years, including the C.P.R., there is a tendency to clear up the profusion of companies that come within the corporate structure.

Mr. GORDON: Yes.

Mr. FISHER: Do I take it the major reason why this is not open to you at the present time in the trucking situation is that of provincial licensing and control?

Mr. GORDON: This is what counsel has warned me against answering because the question is before the courts, and action has been taken against the Canadian National, in my opinion, because they regard us as, for example, being a crown company. But, they have not taken action against the other railroad.

You see, when I mentioned here in my statement about being taken out of context and capable of misinterpretation, that arose by reason of the fact that you and I, in fact, were discussing at one point whether or not we had made a prudent purchase in regard to certain of the trucking companies. Now, in my attempting to convince you that the purchase we made was a good business purchase it became distorted in such a way, to use my reference to that, that it covered the operations of the companies and that evidence was taken out of the *Hansard* reports and brought as new evidence—I think quite improperly, although I might be in trouble again for saying that—into a case that had been started and was in progress in the courts. When I appear in court, as I have, or when a witness from Canadian National Railways appears in court, the lawyers on our behalf, very conscious of what the case is, will protest to the court about the admissibility of certain kinds of evidence or the interpretation that may be alleged in connection with it by the other side, and therefore I have the protection of counsel in connection with the case. First of all, they tell me I always talk too much, and I think you will agree with them! Besides which, I am drawn into statements which they can get hold of and re-introduce into court on a different basis from that which was intended altogether.

Mr. FISHER: In connection with the East-West, is the legal difficulty with regard to that firm the legal ownership?

Mr. GORDON: Yes, that case has been settled.

Mr. FISHER: Out of court?

Mr. GORDON: It was settled out of court on a direction by the court, as I understand it.

Mr. FISHER: Can you give me the terms of settlement?

Mr. GORDON: Just a moment; I would like to do so. Let me put it in this way: In the original purchase price we held back a certain amount of funds on the grounds that the vendors had failed to live up to the warranties contained in the purchase agreement. Now, the upshot of that was that the vendors got together with us and we reached a compromise in regard to the purchase price. We therefore settled at a lower purchase price than the original settlement. It became a matter of the money involved, and we reached an amicable settlement on that basis.

Mr. FISHER: As you know, in previous years I have raised a question as to which of these companies was remunerative. I assume from information I was given by certain interests that the Midland Superior was in a sense carrying the rest of the operations in so far as the question of there being any service was concerned. But I would like to know how soon you expect that you will be able, if ever, to indicate when we can look at the—I will not say the books—report for each of these companies.

Mr. GORDON: In my present state of thinking, and again under advice of counsel, I doubt whether that time can ever come. In other words, in the report that we make here we show that the net operating profit for the total operation was \$1.3 million.

Mr. FISHER: Let me put something to you. You do not hesitate to tell us which hotels are making money and which are not. You are quite prepared to go before the board of transport commissioners to indicate, under your cost accounting formulae—

Mr. GORDON: Can we leave it this way, Mr. Fisher, that if and when the court case to which I am referring, which has been brought up again, in my opinion, for purposes of delay—and every possible thing that can be done to delay has been seized upon by the truckers' association—when the case is settled, or if the court ruling is not what we think it should be and there is an appeal, when we are through with that I would undertake, if I am around, to have a fresh look at this to see whether or not we can provide the information that I know you are anxious to get. However, I think we would have to consider it in the light of what this case does to our operations.

Mr. FISHER: Have you any projects under way at the present time to pick up any more licences by purchase?

Mr. GORDON: No, there have been some discussions going on, I understand, but there is nothing far enough advanced that has come before me yet. We are always getting suggestions, you know.

Mr. FISHER: I know one trucker who is looking for a bid, as far as that is concerned, in one part of the country.

Mr. GORDON: Yes, certainly that is the way.

Mr. FISHER: Are these companies in any way limited in their expansion by the fact that they come under a provincial jurisdiction?

Mr. GORDON: On the advice of counsel I must refuse to answer that question. I am sorry.

Mr. ROCK: Mr. Gordon, how long was Canadian National Railways in the trucking business? I am asking this question for a purpose. I would like to know when your company had trucks in service compared to these other firms. I believe that Canadian National Railways were in the trucking business long before most of these trucking firms existed, and I would like you to clarify that.

Mr. GORDON: Canadian National Transportation Limited's charter goes back to the early thirties, at least. Of course, our express trucks go back, I suppose, to the origin of the railway. There has always been trucking of a type. As soon as there were trucks we had them. Before that, we had horses and wagons. The horse and wagon was the forerunner of the truck, of course, and we always had them associated with the railway.

Mr. ROCK: Would you say, then, that Canadian National Railways or any of the railroad companies which existed prior to their bankruptcies and which Canadian National Railways took over, were in the trucking business also in many parts of Canada for express services?

Mr. GORDON: You see, this definition of the trucking business is the question.

Mr. ROCK: I say, did they have trucks to deliver from the trains to the customers?

Mr. GORDON: Yes, very definitely.

Mr. ROCK: So you were in that business away back in the past?

Mr. GORDON: Yes.

Mr. ROCK: Possibly even before most of the other firms started business?

Mr. GORDON: I would say before any of them started in the use of trucks.

Mr. ROCK: The firms you have just purchased, if I may use that term—the Midland and Husband companies—are established on the island of Montreal. Where are they established? Where are their headquarters?

Mr. GORDON: Where are their headquarters on the island of Montreal?

Mr. ROCK: Yes, where are their warehouses and where are their central areas of location?

Mr. GORDON: You are thinking of the head office?

Mr. ROCK: No, where are their trucks and warehouses located? From where do they operate?

Mr. BEAULÉ: He means the warehouses.

Mr. GORDON: It depends which point they are servicing. They have terminals and warehouses at each point they were servicing within the rights and privileges of their franchises.

Mr. ROCK: I do not mean the point from which they are servicing—from what point to what point; I mean where is their central location. Where is their warehouse, say, on the island of Montreal? I believe you have one on Cote de Liesse.

Mr. GORDON: Yes.

Mr. ROCK: I believe two of them are established there.

Mr. GORDON: Yes, but I do not know exactly where.

Mr. VAUGHAN: Montée de Liesse in Ville St. Laurent.

Mr. ROCK: In Ville St. Laurent?

Mr. GORDON: Yes.

Mr. ROCK: That is Husband?

Mr. VAUGHAN: That is Midland.

Mr. ROCK: Where is Husband located?

Mr. VAUGHAN: At 6850 Upper Lachine Road.

Mr. ROCK: We were speaking about the piggyback service before and you stated that you are not too happy about the results at the moment. You asked for an inquiry into that. Have you been doing any piggyback service for your own subsidiary companies? Have you been getting business from your own subsidiaries, or is this what you are trying to investigate?

Mr. GORDON: I would appreciate it very much if you would not press that question because, again, it impinges on this legal question.

Mr. ROCK: I will not press it, then. I was going to ask you also if you have any intention of moving some of their main operations closer to your piggyback service.

Mr. GORDON: It could be; it might be as a result of the investigation that I am talking about.

Mr. HORNER (*Acadia*): It seems, Mr. Chairman, that we are really limited in this inquiry into trucking subsidiaries; but I take it from your Winnipeg speech, Mr. Gordon, you agree that Canadian National Railways can move grain at a rate of from four to eight cents per ton mile.

Mr. GORDON: I do not know. We have not used trucks for the movement of grain to my knowledge.

Mr. DEMCOE: No, not that I know of.

Mr. GORDON: The figures I quote there are as a result of other information. We have not had any practical experience of moving grain in trucks.

Mr. HORNER (*Acadia*): But this speech was "a very carefully edited speech", to quote your own words.

Mr. GORDON: I say that other people can do it from four to eight cents, from the information we have on this subject but I am not prepared to say we can do it. I do not know. I would assume we could.

Mr. HORNER (*Acadia*): You say that truck costs for the same movement are in the range of four to eight cents per ton mile.

Mr. GORDON: If others can do it, I would think we can do it.

Mr. HORNER (*Acadia*): Then, on page six you say—to get you back to this integrated trucking system—with regard to your obligation you are well aware that the C.N.R. is obligated to provide this service. When I questioned you earlier on this I said I would wait until the trucking question came up. If grain handling was brought up to date into a futuristic looking picture such as you tried to paint in your Winnipeg speech, and this integrated trucking system was set up, would it be part of the obligation of C.N.R. to carry this integration out?

Mr. GORDON: Not necessarily.

Mr. HORNER (*Acadia*): You will agree that the C.N.R. was obligated to many towns and communities because actually many towns in western Canada were built up on the instigation of the C.N.R., if we go back a good many years. You therefore would accept this responsibility as an obligation to provide service to those towns. Would you not feel that if you took away this service and you asked someone to transplant it with an integrated trucking service, the C.N.R. had a certain obligation to do that themselves?

Mr. GORDON: I am not pressing that. What I said was intended to be helpful, to suggest there ought to be a master plan, and the master plan can only be formulated if all the interested parties get together and talk the problem out. What I said, if you refer to it, is that the formulation of a master plan appears to be the job of no one authority or agency and, as is so often the situation in human affairs, what is everybody's job becomes nobody's job.

Mr. FISHER: We have here a latter day socialist.

Mr. GORDON: I have been called worse, Mr. Fisher!

Mr. HORNER (*Acadia*): I believe in the resolution on the order paper it is suggested that some sort of a body be set up. I am referring to the MacPherson report. Do you envisage this would take its place?

Mr. GORDON: This body here? I am reading the resolution. I have not been consulted about it. I would not regard this body as the kind of thing I had in mind. This body is to sit in judgment on whether or not a particular line should be abandoned or should not be abandoned, and if we press an application for abandonment, as I understand it, this body will take a new look at it. Again, you can make your own representations before that body, and on the basis of evidence everybody concerned will be able to state their views.

The CHAIRMAN: Are we going to stick to trucks?

Mr. HORNER (*Acadia*): You bet we are sticking to trucks. We are finding out who is morally obligated or who will fill the gap.

Mr. GORDON: That is what my speech is all about.

Mr. HORNER (*Acadia*): I am saying that perhaps Mr. Gordon and company are obligated to fill that gap.

Mr. GORDON: No, we are not obligated to fill that gap, nor are we capable of doing so.

Mr. FISHER: The MacPherson argument is surely that this particular mode of transportation is very easy to get into with relatively small capital resources, and I would certainly take from its recommendations that they would consider that this kind of service would be provided by organizations that would grow or develop on the spot.

Mr. HORNER (*Acadia*): It is nice of you to come to Mr. Gordon's defence, Mr. Fisher.

Mr. FISHER: I do not agree with the MacPherson commission.

Mr. HORNER (*Acadia*): I would like to bring it to your attention that this type of system would take the place of a great deal of capitalization now built up along branch lines and built up in many cases in western Canada at the very instigation of the C.N.R. and, in many cases, the C.P.R. Now, who is to set up the integrated trucking system? I say that it is up to the C.N.R. to move the grain, and if they want to move the elevators, then they have to get the grain from the present position on the elevators to their central location.

Mr. GORDON: That is your view and you will have an opportunity of stating it, I presume, when the branch line abandonment is being considered. What I was trying to do in this speech was to point out that there are a whole series of problems, and the question of compensation, as you mentioned yourself yesterday in regard to elevators especially and so forth, will have to be one of those questions considered, the question of whether or not farmer's problems should be recognized by some form of adjustment, and so on, but that cannot be done by the railways because we would be sitting in judgment of ourselves. That is why I am saying we are not capable of doing it. We are capable of making recommendations and we will bring out our views on the problem, and we will have suggestions on how our phase of the problem should be dealt with, but somewhere there should be a co-ordination of thinking and effort to see what is the best solution for the benefit—note my words—of the farmer. That is what I am talking about. If you get an efficient, modern, up to date, system of moving grain, and taking advantage of all the techniques that have been developed in that connection, the farmer must surely benefit in the long run because, as I have said here, the basic system of moving grain in this country was devised and came to being in the horse and buggy days, and basically it is the same system.

Mr. HORNER (*Acadia*): No, it has greatly changed. I would not accept that at all.

Mr. GORDON: There have been improvements.

Mr. HORNER (*Acadia*): You are suggesting the farmer has not taken advantage of modernization.

Mr. GORDON: No, I am not saying that. Certainly there have been great improvements with regard to the kind of vehicles used, but the notion that we have to move our grain in the fashion in which we are doing it is the same notion as it was in the horse and buggy days.

Mr. HORNER (*Acadia*): Some contractor of the C.N.R. moving grain from Vancouver island might think so.

Mr. GORDON: I will stick my neck out again. How much study would you say has been put into the possibility of moving grain by pipe line?

Mr. HORNER (*Acadia*): Quite a bit.

Mr. GORDON: I have not heard about it. I have not heard it coming into any public consideration. I know there have been studies of it. It may be that with proper examination of a master plan as I am suggesting it will develop that there are ways and means open to us today that were just not even in man's thinking back in the old days.

Mr. HORNER (*Acadia*): I have a further question, Mr. Chairman. In a sense you have set up an integrated trucking system with regard to the bringing of freight to the railways. Am I right or wrong?

Mr. GORDON: You did not say grain, did you?

Mr. HORNER (*Acadia*): No, I say you have set this up in many localities.

Mr. GORDON: Wait a minute. I am not going to comment on the use of the phrase, "an integrated trucking system" because that comes right into the legal case again.

Mr. HORNER (*Acadia*): But in a sense you stated before the committee, and I want to clear this up in my own mind, that the C.N.R. is engaged in acting as a feeder system to the main line.

Mr. GORDON: Yes. We do use trucks, not only our own trucks but we use hired trucks to bring traffic to our lines when it suits our purpose. Yes, that is true.

Mr. HORNER (*Acadia*): You do not foresee this being enlarged in any way, shape or form, in conjunction with your proposed plan for branch line abandonment, as you suggested?

Mr. GORDON: I say that is a possibility. That is one of the things that should be considered in the master plan if we can ever get a master plan under discussion. With your interest in it I would suggest you should be using your influence and efforts in Western Canada to raise hell about the fact that the people do not get together and talk about this in an intelligent way in regard to all phases of the problem.

There is nobody doing it. I am not going to say who should do it. I have a very strong opinion on who should do it, but I am not going to reveal it.

Mr. FISHER: I think the line elevators should be doing it.

Mr. GORDON: That may be, and there should be a co-ordinating body of some sort.

Mr. HORNER (*Acadia*): I think they should get together. I disagree with your statement that there is no get togetherness on the prairies.

Mr. GORDON: No. I never said that. I never criticized it. I have enjoyed it, as a matter of fact, on occasion.

Mr. CADIEU: On this question of getting together, may I ask what the two railways are doing in regard to getting together when one has running rights over the other? The Canadian Pacific has running rights over the Canadian

National from Prince Albert to a point on the Canadian National at Debden, for some 90 miles. Then the Canadian Pacific built 90 miles to tap the wealth of the whole Meadow Lake country, and stopped there. This forces all the people in the area to haul their grain over to Meadow Lake, and it is creating a lot of disturbance in that area of western Canada. I wonder what the railway companies are doing about it.

Mr. GORDON: That is part of the branch line abandonment program. I take it that is what you have in mind.

Mr. CADIEU: Yes. By stopping at the Meadow Lake country they are leaving that whole area of northern Saskatchewan in a turmoil as to what is going to happen. I think the railway companies have a problem.

Mr. GORDON: I would agree, but I would be the last person in the world to say that the railway companies are perfect while other people are not. I am not claiming it.

Mr. CADIEU: How do you feel about it? I know it was not done under your jurisdiction, but this country has been suffering for 30 and some years because of it. The Canadian Pacific have running rights for 90 miles, they have deprived the Canadian National who pioneered this country, and left you in a state where you will not fill up any gap on their line and develop, and it has got the whole northern area of Saskatchewan in a turmoil. Yet all they had to do was to build 90 miles, with running rights over the Canadian National line to tap the whole country. I think it is time the railway companies did something about getting together.

Mr. PASCOE: While we are talking about modernizing the movement of grain, may I ask if the elimination of the grading procedures at Winnipeg has speeded up the movement at all from the lakehead?

Mr. GORDON: I am afraid I cannot answer that question.

Mr. DEMCOE: You mean a speeding up of the movement?

Mr. PASCOE: Yes.

Mr. DEMCOE: Oh, yes, there is better car utilization. The lines are improved and the grain is moving faster from the farm to the head of the lakes.

Mr. PASCOE: Quite a bit faster?

Mr. DEMCOE: It has increased the speed, with better handling through our terminals.

The CHAIRMAN: Let us stick to trucking, please. Now, Mr. Marcoux.

(Translation)

Mr. MARCOUX: Mr. Chairman, after hearing Mr. Gordon's brief on the trucking firms to the effect that all such firms are independent one from the other, would you be in a position to affirm that the Canadian government in granting subsidies to the National railways, either directly or through the payment of costs to the shipper, or by making good for the deficits, can Mr. Gordon assert that the C.N.R. are not paying those subsidies to their own transportation company?

(Text)

Mr. GORDON: Yes, I could state very definitely that we are not subsidizing our trucking operations in the way you suggest.

(Translation)

Mr. MARCOUX: Neither directly, nor indirectly?

(Text)

Mr. GORDON: Neither directly nor indirectly.

The CHAIRMAN: Now Mr. Rock?

Mr. ROCK: With respect to your report, and to certain questions asked by Mr. Horner about the movement of grain from the west, it was just by accident that I mentioned to Mr. Lachance and Mr. Marcoux that they should possibly study a pipe line system, whereupon you immediately mentioned it yourself. I do not know if I am in order or not, but I would like to know the feasibility of such a possibility, and also I would like to know what happened to your business when the oil pipe line was constructed?

The CHAIRMAN: This is not trucking, Mr. Rock.

Mr. ROCK: It comes to the same thing. I am concerned about trucking because Mr. Gordon mentioned that he was not too interested in getting into the trucking business to haul grain.

The CHAIRMAN: Go on then with your question. It would take longer for you to explain it.

Mr. ROCK: It is because of my concern over the matter that I want to ask this question. I believe you may be concerned as to what happened possibly to all the cars purchased in the past for oil carriers when the oil pipe line system was created? Did you have an excess of rental cars after that?

Mr. GORDON: As a matter of fact, that is one of the peculiarities of the railway business. If I remember correctly we do not own any tanker cars. They are provided by the oil companies.

The CHAIRMAN: Now, Mr. Lachance.

*(Translation)*

Mr. LACHANCE: Mr. Gordon, in view of the fact that the Canadian National is subsidized by the federal government, do you not think that this railway, in the trucking field, is in conflict and competing with the trucking industry because the purpose of the Canadian National is not exactly trucking operations, but railway transportation. In other words, would it not be preferable to let the private trucking industry perform transportation rather than have the Canadian National do trucking itself?

*(Text)*

Mr. GORDON: I hear that the microphone is not open. What does that mean?

No, I do not think so. Our annual report shows that we make an over-all profit on trucking operations. I think that is the best answer to the suggestion that we are subsidizing trucking operations. We are not. They stand on their own feet. We made a profit on them of \$1.3 million last year.

Now, to answer the second part of your question, we do hire a great number of independent truckers in connection with our business and we buy these trucking subsidiaries when they fit our particular needs on a basis which we think is to our advantage.

*(Translation)*

Mr. LACHANCE: Do you not think it would be preferable for the government to grant subsidies to the shipper by road-trucking and thus favour him, rather than have this transportation done by the Canadian National, in view of the fact that the main purpose of the Canadian National is not necessarily trucking, but rather rail transportation?

*(Text)*

Mr. GORDON: I do not know what you mean by subsidies in that respect. To what subsidies do you make reference?

(Translation)

Mr. LACHANCE: The federal government grants subsidies to the shipper for some kinds of merchandise, especially grain, if I am not mistaken; therefore, would it not be preferable if the shipper rather than the Canadian National chose the mode of transportation?

(Text)

Mr. GORDON: I am not aware that any farmer has received a subsidy from the government to move grain.

Mr. HORNER (*Acadia*): I am not aware of it either.

Mr. GORDON: And moreover, in regard to the general approach, whether it is better to give the shipper a subsidy, theoretically I agree, but practically it is not possible in terms of administration, in my opinion. The government may wish to grant a subsidy in respect of a particular area for social or economic reasons, whatever it may be. To do so they must choose the simplest way to administer it. If the government should have to deal with every shipper in regard to his claim for a subsidy, it would be an impossible situation and an impossible burden in the way of machinery. Each claim would have to be scrutinized, and each claimant would be suspect. I am not saying that everybody is crooked, but when money is to be received, one would tend to make the most favourable representation possible. On the other hand, if the subsidy is applied through the railway, then it is possible to check it through the books.

Mr. FISHER: Has the railway association or your railway expressed any views to the federal government regarding the representations of the Canadian Trucking Association that the long haul trucking business that goes over provincial boundaries should be brought within the scope of a federal agency?

Mr. GORDON: We did receive from the government a copy of a brief which the truckers association made as well as the briefs of other representatives. The railways have replied to the government in detail in respect of the allegations made therein.

Mr. FISHER: Do you see any advantages, or can you comment in respect of any advantages to the trucking association or truckers individually having the right to appear before the board of transport commissioners in respect of rates or any other aspect of the competitive problems?

Mr. GORDON: I have strong views myself but I do not know whether it would be appropriate for me to express them because this involves a matter of government policy.

Mr. FISHER: You do express views on government policy in this regard to the government. What would be wrong with an expression of your view here?

Mr. GORDON: If you tell me it is all right I will be guided by your advice.

My main point of objection to the trucking companies, or individual companies that are competitors with the railway, having the right to appear before the board of transport arises because we do not have a similar right to examine those companies. There is no procedure whereby I can ask to see the books, records and particulars of a trucking company. If that right were interchangeable, then I would have no objection.

Mr. FISHER: I would contemplate that if the trucking association had this right it would show a great deal of interest in agreed charges.

Mr. GORDON: Yes, that would likely be a result, and I think it would very soon establish that our agreed charges are, as I have always said they are, made on a compensatory basis.

Mr. FISHER: I should like to ask another question in respect of a completely different subject under the trucking item. There has been fairly consistent

criticism in shipping circles, particularly in the Manitoba lakehead area, with regard to the unelasticity—I think that is the best word—of the rates charged when the water shipping season is open in the lakes and particularly in respect of the whole movement of sort of package freight westward and eastward. Within that kind of context the argument has been made that if it were possible to permit sort of water piggyback services it is likely these rates would go down. Have you as a company with trucking subsidiaries in the haulage business over routes which parallel the lakes ever considered this idea? Have you ever discussed with the C.S.L. the whole question of providing this kind of service?

Mr. GORDON: Yes. Our research department has had conversations of that type but I do not think it has got very far, because the practical problems of piggybacking on ships involves a very large question of capital expenditures. The ships would have to be specialized ships. There is a term for this type of service. I believe the term is "fishyback".

Mr. FISHER: The C.P.R. has introduced a new type of container which is, I understand, flexible and can be used for both rail and truck haul. Have you considered that type of container?

Mr. GORDON: Yes. That is the very same type of container we use at the present time in respect of Newfoundland shipping. We originated that type of container when we put the "William Carson" into service. The container was necessary because of the narrow gauge railway in Newfoundland. We just lift the container off the main line train and put it on a flat car in Newfoundland, bolt it down and save the cost of transshipment.

Mr. FISHER: Has the C.S.L. shown any interest in these new methods?

Mr. GORDON: Yes, I believe they have, and I know there have been plenty of discussions with our people in respect of this kind of thing.

Mr. FISHER: The last question I should like to ask you in connection with the trucking item centres on future policy of both major operations in respect of trucking. Under the Canadian National-Canadian Pacific Act have you ever had any discussions with your major competitor, which is also the company with which you are linked by that act, in respect of any arrangements for pooling any operation on the trucking side of the business?

Mr. GORDON: No, we have not.

(Translation)

Mr. LACHANCE: Mr. Gordon, to revert to the problem, to the questions I asked a while ago, are not certain kinds of goods subsidized, is transportation by truck not subsidized by the federal government? And are those subsidies not paid to the Canadian National?

(Text)

Mr. GORDON: No, I am not aware of any. You are referring to a subsidy paid to the Canadian National Railways in connection with trucking, are you?

(Translation)

Mr. LACHANCE: For the transportation of some merchandise?

(Text)

Mr. GORDON: You are referring to certain classes of goods? Perhaps if you tell me what you have in mind I can identify it. I cannot identify it at all at this point.

The CHAIRMAN: Are there any other questions in respect of trucking subsidiaries or can we adjourn now and then proceed to passenger services this evening?

Mr. HORNER (*Acadia*): The whole theory and trend of this annual report has been directed toward the fact that you did not charge high enough depreciation allowances in past years. Can you assure this committee that you are charging high enough depreciation allowances in respect of your trucking operations? If you had charged higher depreciation allowances back in the early 1950's when you did show a profit you would not have shown a profit; is that right?

Mr. GORDON: There is being charged by the company, so far as I know, the normal depreciation customary to the industry.

Mr. TOOLE: They are charging the normal depreciation.

The CHAIRMAN: Could I have a motion to carry this item?

Mr. ROCK: Yes.

Mr. HORNER (*Acadia*): Are you charging depreciation allowances as high as those charged by the C.P.R. or any other trucking company?

Mr. GORDON: We are making depreciation allowances normal to the industry.

Mr. HORNER (*Acadia*): Do you want to adjourn now Mr. Chairman?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Tonight at 7.30 we will consider the paragraph in respect of passenger services. Thank you very much.

#### EVENING SITTING

(Text)

The CHAIRMAN: Gentlemen, we have a quorum. Would you please come to order.

We now are on passenger service.

Mr. PRITTE: Mr. Gordon, I have not heard any complaints in respect of the reduced fares the railway is offering, but that is understandably so.

Mr. HORNER (*Acadia*): Are you going to complain?

Mr. PRITTE: No; someone else made a complaint. I have here a report by Mr. Charles Spratt, Edmonton, president of the Western Canada Motor Coach Association. He made this complaint, which I will read:

He called the rates unreasonably low with the C.N. "interested only in increasing traffic numbers" with no regard to increased operating costs. If losses occur in the passenger operations, "we, in effect, as taxpayers, will be subsidizing our own competition".

I wonder if you would comment on the particular charge Mr. Spratt made, that you were doing this with no thought of operating costs.

Mr. GORDON: Well, it is so obvious I think it is hardly worth while replying. It is obvious we are not doing that, and the best test of it is that our passenger deficit, as nearly as we can estimate it, made on the same basis as we provided it to the royal commission on transportation, is being reduced. It is clear that we are still losing money in our passenger business but the point is in putting in these fares and increasing the volume of our trains we are getting a new volume which is giving us a better net reduction and we are reducing the deficit by reason of it.

Mr. PRITTE: I have one other question. I think I asked you last December if you had any plans to obtain dome cars such as the C.P.R. were operating and I believe at that time you said no, that you thought you would put your money into different types of equipment. But, I understand you do have them now.

Mr. GORDON: Yes. We were able to make a very advantageous purchase through the Milwaukee Railway. There are six cars. They are not dome cars but sceneramic. Then, there are four cars that are more like the dome cars. We have ten cars, in all and we were able to make a very advantageous purchase on them. And, in view of the fact we put in this new panorama train, which is a second edition of the super Continental, we thought we should take advantage of this situation; we were short of cars and that is why we went into it.

Mr. PRITTE: I know those who have been speaking of bookings recently have been finding out you are booked six weeks ahead on the Continental panorama.

Mr. GORDON: Yes, and I hope we continue to wrestle with the problems of prosperity along that line. We are short of equipment now and will have to correct this situation from time to time. But, at the present time we are pretty hard pressed.

Mr. PRITTE: As a result of the shortage of equipment my family are going back by Air Canada.

Mr. HORNER (*Acadia*): Terrible!

Mr. GORDON: In view of the amount of revenue we would get in that respect—

Mr. PRITTE: In any event, we would pay for the berths.

Mr. HORNER (*Acadia*): Mr. Gordon, has your passenger traffic increased, thereby helping to rectify this problem?

Mr. GORDON: Yes, indeed, very substantially.

Mr. HORNER (*Acadia*): You say it has increased?

Mr. GORDON: Yes, it has increased very substantially under the impact of the red, white and blue fare plan.

You will recall that we started the red, white and blue plan in the maritime provinces and operated it east of Montreal on an experimental basis. We have established very definitely that the number of passenger carryings has increased substantially, and after trying out various types of services adjustments and so forth we came to the conclusion we should extend the red, white and blue fare plan to all parts of Canada, which we did in October, 1963. We cover points in northern Ontario in conjunction with the Ontario Northland Railway commencing in June 1963; transcontinental services between stations in southwestern Ontario and lines to western Canada in October, 1963, and lines to northern Quebec in April, 1964, and when it was applied in the pool territory in 1964 all the C.N.R. lines in Canada were covered.

Mr. HORNER (*Acadia*): For the record, would you explain exactly what the red, white and blue fare plan is. This is what caused your increase. I want to have it in your own words on the record.

Mr. GORDON: Do you want a short or a long explanation?

Mr. HORNER (*Acadia*): A short explanation will do.

Mr. GORDON: All right. I have four pages of it here but if you will allow me, I will give you my interpretation of it.

Mr. HORNER (*Acadia*): Your interpretation always is good enough for me.

Mr. GORDON: Thank you; I will remember that.

What we did was study it from a market point of view in regard to the periods in the calendar when we had low carryings and peak load carryings. The red is the lowest; the white comes next, and then the blue.

Mr. HORNER (*Acadia*): There was no maple leaf connected with this red white and blue fare plan?

Mr. GORDON: Not so far. The Canadian National symbol is our symbol. We said, in effect, on the days we proved the public do not use the trains we would give a price incentive; we would lower it to induce them to use that period. The next period, white, was not quite as much in that respect, and we put a slightly higher price on it, and then came the blue days which are the days of our peak loads. In other words, we do not need to encourage people to travel Christmas and New Year's as we know the trains will be loaded in any event, and the blue fare is at the normal price. But, we gave a price incentive for people to use the train on the off peak periods, and we found the public have responded to that very well. Of course, what we are aiming at more than anything else is to get people to give up the habit of using their own cars and we are working in a lot of inducements, group fares and so forth in order to do that. But, we have made it so cheap now that the car owner looks at our fare and decides it is cheaper for him to go by train than to use his own passenger automobile.

Mr. HORNER (*Acadia*): In a sense, would you agree that what you have done has brought about a reduction in passenger travel fares?

Mr. GORDON: Yes, on the over-all that is true.

Mr. HORNER (*Acadia*): And this has caused an increase in passenger travel?

Mr. GORDON: Yes. We have applied the same principle as you do when you are selling soap; you ascertain what the public wants. And, we are providing incentives for the public to use our service at a price.

This is the first time this principle has been thoroughly tested in the railway business. We have been the pioneers of it. I can tell you a number of United States railways have been talking with us and they have been very interested in the kind of response we have received.

Mr. HORNER (*Acadia*): I have been an advocate of this at different railway committee meetings over the past number of years and I am pleased to see that it is a success. But, do you believe it would be a success in respect of freight or other services?

Mr. GORDON: We have the same principle in freight service; we have produced incentive rates. We have produced rates that provide an incentive for higher loading of our cars. We have quite a number of incentive rates of that kind. We have followed that same principle and have done that for some years.

Mr. HORNER (*Acadia*): In the field of economics it is suggested that a price can increase until it reaches a point.

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): Then business starts to fall off and revenue starts to decrease.

Mr. GORDON: You are absolutely right, yes.

Mr. HORNER (*Acadia*): When the price is brought down again, business picks up and total revenue increases?

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): Here, in a sense, you have proved the theory that the revenue and traffic have increased to an economic saturation point, always bearing in mind other modes of travel.

Mr. GORDON: That is the first result. Mind you, I still have my fingers crossed because it is difficult at this stage to sort out what might be called the curiosity appeal from the stable traffic which will continue. If the public will continue to be attracted by these low prices, then we have won. After all, people drifted away from the trains not basically because of the price but because of the new convenience of their passenger automobiles. Now the passenger automobile is no longer as popular as it was because of the congestion

on highways—which we hope will continue as far as we are concerned—and the combination of less comfort in driving the passenger automobile plus price incentive. Those two factors are working in our favour.

Mr. HORNER (*Acadia*): I am not convinced—and I want to question you again on this—that this same theory cannot be applied to freight traffic and, let us say, even to grain traffic.

Mr. PRITTE: On branch lines?

Mr. ROCK: How much per bushel?

Mr. HORNER (*Acadia*): Well, I just threw in grain because I love it.

Mr. GORDON: We do not carry any grain on passenger trains.

Mr. HORNER (*Acadia*): But I am talking about the economic theory which you have proven to my satisfaction and, I am sure, to the satisfaction of many professors who teach economics in the universities across Canada. You have proven once again that it is true that you can reach a point of no return; and this is what passenger fares did reach to a certain extent.

Mr. GORDON: And the reverse is true; we cannot afford to reduce prices to the point at which we lose money.

Mr. HORNER (*Acadia*): No, always bearing in mind our ultimate dream that Canadian National Railways will make money.

Mr. GORDON: I do not like the use of the term “ultimate dream”; I want it to be realized this year. If you fellows co-operate in putting through the MacPherson legislation and capital revision it will be a dream that will be realized this year.

Mr. HORNER (*Acadia*): You will have all the co-operation from me because we do want Canadian National Railways to pay; and we know, we do know, that western Canada is paying its fair share of the cost in maintaining the operation of it.

Mr. MILLAR: For the first time in history.

Mr. COWAN: What is the Crowsnest rate?

The CHAIRMAN: Order.

Mr. HORNER (*Acadia*): But here you have proven an economic theory. Have you given it a true test with regard to freight rates? This is the question to which I want an answer. We saw continuing price increases in freight rates until the government put a stop to it some years ago.

Mr. GORDON: That is because of the system of the horizontal freight rate increase which was the only method open to us in the light of the existing legislation at that time. Now when we get the MacPherson commission legislation through we will be free to use our own economic judgment.

Mr. HORNER (*Acadia*): I have one further question arising out of your answer, Mr. Gordon—perhaps two further questions, but, Mr. Chairman, bear with me.

The CHAIRMAN: Always on the passenger line.

Mr. HORNER (*Acadia*): Always on the passenger line, Mr. Chairman, and on the theory that is so well proven in the passenger reduction rates. Are you suggesting, Mr. Gordon, arising out of your answer, that the free zone freight rates will be removed when the MacPherson legislation is passed.

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): It will be removed?

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): And you will be prepared then—

Mr. GORDON: I mean to say that I cannot remove them, but that it is part of the whole theory. Government action will remove them, in my opinion, yes.

Mr. HORNER (*Acadia*): And you will be prepared then to put to test the economic theory which you have once again proven on the passenger fares in regard to freight rates.

Mr. GORDON: Very definitely, yes, indeed.

Mr. HORNER (*Acadia*): I am suggesting that with a 150 per cent increase in 1947 to 1957 freight rates reached a saturation point in many cases, not necessarily in all cases, and this theory, so well proven in your passenger fares, Mr. Chairman, if I might refer to the passenger fares once again, can be proven in freight rates.

The CHAIRMAN: All right, Mr. Horner.

Mr. GORDON: I would like to make one comment on that and then we will drop it, if you will.

The CHAIRMAN: I hope so.

Mr. GORDON: I would like to make the suggestion that you look at the actual increases. The relative price for the railway product has gone up much less than many other prices.

Mr. HORNER (*Acadia*): Well, I can go back to grain farming. Some things have increased and some things have not. We farmers have been working for nothing for years.

The CHAIRMAN: Mr. Beaulé.

(*Translation*)

Mr. BEAULÉ: Mr. Gordon, I have two questions. First, does the blue, white and red rate system apply on the new service between Montreal and Quebec?

(*Text*)

Mr. GORDON: Yes, it is. It is now in use on all Canadian lines in Canada. It now applies to all Canadian National lines.

(*Translation*)

Mr. BEAULÉ: Now, you know that, during 1962, passenger-car maintenance was carried out by Canadian Pacific in Quebec city. Now, in view of this new service between Quebec and Montreal, do you anticipate that repairs will be carried out by the employees of the Canadian National at Limoilou?

(*Text*)

Mr. GORDON: No.

Mr. BEAULÉ: Quel raison? Why?

Mr. GORDON: Because our main passenger repairs and other repairs are concentrated in the Point St. Charles shops.

(*Translation*)

Mr. BEAULÉ: Why?

(*Text*)

Mr. GORDON: Well, it would be very small to start with. After all, one end of the line is Montreal, and that is where the shops are.

Mr. DEMCOE: Minor repairs will be made in Montreal when the train gets there at night before it leaves in the morning. But when the train gets there at 10.15 and sits there until five o'clock, it has all day, and they would do any major repairs in Montreal.

(Translation)

Mr. BEAULÉ: Yes, I understand, but the new train now in service between Quebec and Montreal obviously gives more work now. I am speaking of maintenance, of light repairs to the cars. Would it not be possible for these repairs to be carried out at Limoilou rather than at the Canadian Pacific?

(Text)

Mr. GORDON: I do not know. We do not know what the Canadian Pacific Railway is doing.

(Translation)

Mr. BEAULÉ: Has Canadian Pacific employed additional staff since this passenger train went into service?

(Text)

Mr. GORDON: Unless you know, Mr. Demcoe?

Mr. DEMCOE: I am not aware.

Mr. GORDON: We would not have that information.

(Translation)

Mr. BEAULÉ: Could we obtain the information?

Can you obtain that information?

(Text)

Mr. GORDON: No, I do not think so. Canadian Pacific do not usually tell us their business; they are pretty cautious. They keep things to themselves.

Mr. BEAULÉ: That is Canadian Pacific Railway business.

The CHAIRMAN: Mr. Rhéaume.

Mr. RHÉAUME: Mr. Gordon, I want to take you back just for a moment to the reference made by Mr. Prittie to the statement made by Mr. Charles Spratt at the Western Canada Motor Coach Association meeting in Winnipeg in April. I think we probably all know of Mr. Spratt and know that he is a fairly reliable person and fairly capable when it comes to understanding bus traffic. In his statement with regard to red, white and blue days I think he said those red, white and blue days in fact were the greatest problem facing bus operators in Canada today. I want to ask you a question. Did the instigation of the operation of red, white and blue fares, in the experience of your company, generate new traffic that was not moving before? Did it encourage traffic in Canada? Did it open up a new area in a market that before was not moving along?

Mr. GORDON: There is no doubt about that. Remember that our belief in regard to the action of the red, white and blue is that most of the traffic came from the passenger automobile. We did not go out specifically to beat the bus; what we are trying to do is get people out of the passenger automobile. In some cases it affected the bus, but the bus has still got an appeal that we cannot meet. They have more flexibility in regard to the intermediate points, and that is their market. I have no doubt at all that in some respects some of the traffic came from buses, but that is competition.

Mr. RHÉAUME: But in fact it did not generate new traffic; it took traffic away from the private passenger automobile.

Mr. GORDON: That is what we are trying to do. It is not rail traffic in that respect. I am not sure how long this curiosity appeal will last. We do know from questionnaires we sent out that a lot of people have made a trip on the rails for the first time in their lives, particularly children, but again I cannot tell you; we have no way of knowing, whether that same family group might not have gone by passenger automobile.

Mr. RHÉAUME: In your opinion it did not take away as much from buses and air lines as it did in fact get the private passenger automobile driver off the highway and perhaps generated a new traffic of people who never before left their own town.

Mr. GORDON: That is our belief.

Mr. RHÉAUME: Did the total passenger service of the C.N.R. during the period when the red white and blue days were implemented lose money under this plan?

Mr. GORDON: Not under this plan. The total passenger service lost money.

Mr. RHÉAUME: It lost money during the period when this plan was implemented on a fairly large scale.

Mr. GORDON: What we demonstrated by this plan was that the steady decline—you have seen it every year for many past years—in our passenger traffic was stopped very shortly after we put this plan in. We stopped it. Now, it has started to climb.

Mr. RHÉAUME: This leads me to my next question which is: In your opinion does the red, white and blue days' plan have the potential to pull the proportion of your operations in the passenger service out of the deficit position?

Mr. GORDON: Not by itself. Other things will need to be done. It is a question of the readjustment of services where they are definitely losing. Some of those services may have to be abandoned. I cannot look forward right now and see in the foreseeable future that a passenger deficit will be eliminated. Under the MacPherson legislation we are given five years in which this passenger deficit may be payable, and then it runs out, so that we will be on our own at the end of five years. They have given us five years to see whether or not we can eliminate the deficit. At the end of the five years, if there is still a deficit, I presume there will be further discussions.

Mr. RHÉAUME: Five years from the time the MacPherson legislation is passed by parliament. In view of the statement made today in the house by the minister it may be 10 years away. The minister indicated that the railway legislation will not take the priority that had been indicated earlier.

Mr. GORDON: I have not heard this statement.

Mr. RHÉAUME: The minister, on the orders of the day, in response to a question directed to him whether this urgent legislation would take priority over certain other matters, for example, the flag debate, indicated that it would not. This sort of suggests that the *Globe and Mail* article which said that legislation will be shelved is reasonably accurate.

Mr. GORDON: We had better wait for *Hansard* because I was told during the short time I had for dinner, one man rushed in and said, that the minister had agreed the MacPherson legislation will go ahead promptly.

Mr. RHÉAUME: Some things must have happened during dinner of which I know nothing.

Mr. ROCK: The Conservatives always have the wrong information.

Mr. GORDON: I cannot give any evidence on this.

Mr. RHÉAUME: I agree that our information may be wrong. We do get it from the ministers of the crown; that is all I can go by. It is an important statement that Mr. Spratt has made, and I think it should be corrected if there is a misapprehension. He has suggested that the C.N.R. had no right to lower its passenger fares as they did in the red, white and blue plan. It made it more economical to travel.

Mr. GORDON: What right had he to make such a statement? Of course he is a competitor so he would squeal if traffic were affected. It is sweet music in my ears when I hear the squeal of competitors who are losing business to us. That is fine.

Mr. RHÉAUME: The squeal is coming from one who sees himself as a taxpayer. The squeal then gets to be a little more significant.

Mr. GORDON: We replied by pointing out that the passenger deficit has been declining as a result of the plans we mentioned.

Mr. RHÉAUME: This is precisely the area I am trying to explore. If in fact the red, white and blue plan is going to help decrease the tax rap that the bus companies are paying, then by this interpretation they should be quite happy.

Mr. GORDON: I do not know how his mind works.

Mr. RHÉAUME: If it is accurate that the red, white and blue plan for the passenger service is helping to make it a more paying operation then they should be happy.

Mr. GORDON: They should be happy but I do not understand other people's logic; I do not know why. I think perhaps Mr. Spratt would probably rather have the excitement of handling passengers and perhaps paying more deficit by the railway because he gets that burden shared by all the people of Canada.

Mr. RHÉAUME: I did want to put it in context, that to anyone but perhaps you and me the thing does look like an abuse of the taxpayers' money.

Mr. GORDON: I cannot follow that.

The CHAIRMAN: Order, order, gentlemen.

Mr. ROCK: I have a supplementary question on that. Is there any red, white and blue system in the Northwest Territories?

Mr. HORNER (*Acadia*): What has that got to do with what we are discussing? That is not a proper interjection.

Mr. ROCK: I just asked a question.

Mr. HORNER (*Acadia*): The members down here represent all of Canada.

Mr. ROCK: I just asked a question.

The CHAIRMAN: Are you through, Mr. Rhéaume?

Mr. RHÉAUME: No. Mr. Chairman, I will not take exception to that.

The CHAIRMAN: Let us get back on the track.

Mr. RHÉAUME: I am interested in the potential of the red, white and blue plan, if in fact this did promote an area of Canadian travel that had not been exploited before. Did it make available to Canadians an opportunity to travel who otherwise would not have travelled before? If it has a potential to move the passenger service into a much healthier position—although it might not make it a surplus position—then the C.N.R. can only be commended for having done it and encouraged to exploit it.

Mr. GORDON: That is definitely the situation.

Mr. MACEWAN: Do I take it, Mr. Gordon, that the C.N.R. definitely believes in the future of passenger service, not only for intercity transportation but for long distance transportation in Canada in spite of the fact that, as I understand, the C.N.R. are not sold on the idea and many United States railways have almost entirely gone out of the passenger lines?

Mr. GORDON: We are running definitely against the trend of railway thinking on the subject, and we have gone all out and taken a calculated business risk in the process. We have done that in spite of the fact that all the evidence shows to the contrary. We think it is going to pay off, but it could be that we are wrong. It is a calculated business risk. Our policy is that we

are competing vigorously for passenger business in those areas where the railway facilities and the size of the market provides a reasonable guarantee that the system can profit by so doing. We are definitely in the passenger business and we propose to stay in the passenger business and provide the kind of service that will encourage the travelling public to use railway facilities.

Mr. MACEWAN: The rail liner service has become quite popular throughout Canada. I am thinking particularly of the Sydney-Halifax line. I realize there is usually one unit on that run and I realize there are large crowds at times on holidays such as Christmas, New Year's, and so on, but a number of times it has become necessary on that run to use a conventional train or alternately to transport a number of passengers who would travel by bus. I do realize that these rail liner units cost a lot of money. I wonder if any of your officials are looking into the matter of having the additional unit hooked on to this rail liner between Sydney and Halifax?

Mr. GORDON: That section of the country to which you are referring is one of our problem areas in regard to the thing you mentioned. I can assure you it is under very careful study right now. Also, in regard to the rail liner itself, we are not satisfied with that type of equipment. We think we can make it more comfortable, and we think we can do a better job.

This is part of our effort to meet the needs of the travelling public. Now there always will be times when for special reasons there will be a peak load situation we perhaps just cannot handle, but we want to cut it down to the minimum.

Mr. MACEWAN: It is being looked into?

Mr. GORDON: Yes, very definitely and vigorously.

The CHAIRMAN: Now, Mr. Lloyd.

Mr. LLOYD: I am satisfied with passenger services.

The CHAIRMAN: Now, Mr. Rock.

Mr. ROCK: We are not in dispute over the services, are we?

The CHAIRMAN: We are on passenger services.

Mr. ROCK: Do you mean that we can go to any item?

The CHAIRMAN: Oh, yes, yes, except freight.

Mr. ROCK: And grain, and the flag issue. We visited your new car down at the station yesterday where you have an electronic system to heat frozen food.

Mr. GORDON: No, it is not frozen food, it is what they call pre-cooked food.

Mr. ROCK: Well, I have no questions to ask.

The CHAIRMAN: Now, Mr. Pascoe.

Mr. PASCOE: I have a couple of short questions. Under "schedules and services" there is a reference to car-go-rail. Is there much of an extra charge in addition to the passenger fare for that service?

Mr. GORDON: Yes, there is a regular charge for taking the automobile.

Mr. PASCOE: Is it quite a large charge, or is it a fair one?

Mr. GORDON: We make it as small as possible. We have to cover our costs on it. Does anybody have a sample?

Mr. PASCOE: Has it met with success?

Mr. GORDON: It is fair. It is not as good as we would like to see it, but we think it can be improved. Since the inception of this service we have carried about 500 automobiles between important cities on the transcontinental main line. We believe there is a substantial market but it is one which will take a good deal of selling. We have had only modest success. It is one of those things which everybody is expected to welcome as a roaring success as soon as it is

offered, but it has not been that good. Nevertheless, we are making progress and we hope that with more advertising and as knowledge of it spreads the service appeal will follow.

Mr. PASCOE: On another point concerning this charge-a-trip program, is that just the regular cost of the fare, or do you have an extra carrying charge as well?

Mr. GORDON: No, it is the regular cost. There is no premium on it.

Mr. PASCOE: Thank you.

Mr. CADIEU: Speaking as one who has travelled quite a lot across the country, I notice this red, white and blue plan which I appreciate very much. I think it is a wonderful thing. Do you think that the red, white and blue plan has meant as much as more efficient dining car service and more courteous services in the last five years?

Mr. GORDON: I think it is all those together as part and parcel. The red, white and blue plan has been the sort of thing which the public wants. But at the same time we are certain that improved services, and the attitude of the employees—because we have conducted talks with the employees and they have responded very well—are equally important.

The CHAIRMAN: Now, Mr. Kennedy.

Mr. KENNEDY: Mr. Chairman, I would like to ask Mr. Gordon some questions. One of the complaints which is raised quite frequently in regard to passenger traffic is that the trains do not stop at intermediate stations. Leaving the time element out of it, which I recognize as important, could you tell me what it costs to stop a transcontinental train?

Mr. HORNER (*Acadia*): I used to flag one down for fifty cents.

Mr. GORDON: Could you give us the figure, Mr. Demcoe?

Mr. DEMCOE: Not very well. There are many variables, such as brake shoe wear, and the stopping and the starting.

Mr. GORDON: I do not know if we have an orthodox figure for it now, but some years ago I was told that it cost \$25 to stop a train. Do you recognize that figure, Mr. Demcoe?

Mr. DEMCOE: I think it is correct.

Mr. GORDON: It is a matter of a cost study; and it is a matter of maintaining our schedules. We cannot maintain them if we do not watch such factors as that. That is one of the factors. We also have our passenger traffic where we have greatly cut down the running time. Our running time to Vancouver, for instance—I think we have it here—has been very substantially reduced. The Montreal to Vancouver running time has been reduced to approximately 66 hours as compared to 73 hours in 1955. Yet in 1955 we in turn thought that 73 hours constituted a substantial improvement over what it had been previously. So I can say that over the period of the last 8½ years we have cut 21 hours from train travel between Montreal and Vancouver. I think that is a very substantial accomplishment.

Mr. HOWE (*Wellington-Huron*): In reply to Mr. MacEwan you said that the rail liner operation in his area was under intensive study. I wonder why the rail liner service was discontinued between Palmerston and Listowel? I mean the one that used to go across to London, when now passengers from Southampton have to go all the way down to Guelph and Kitchener in order to get to London. I think it would be a very good idea if you reinstated that service directly across to London from Palmerston rather than to have the passengers go all the way around via Guelph. I think that is very unfortunate. I receive a lot of complaints up in that area because of it.

Mr. GORDON: Yes, this is one of those perennial questions. We have gone into it many times. Our continuing opinion is that it is not an economic service.

Mr. HOWE (*Wellington-Huron*): I receive a lot of complaints in connection with that particular service. To me it looks like going the long way around, when it could be only a matter of nine miles to institute that service across there.

Mr. VAUGHAN: There is difficulty in cycling the available cars there.

Mr. HOWE (*Wellington-Huron*): If there could be one which would go down to Kincardine, why not let it go to Palmerston and then back to Stratford.

Mr. VAUGHAN: I went down there two or three years ago and rode back and forth and talked to the people there.

Mr. HOWE (*Wellington-Huron*): Did you talk to Fred Edwards in Palmerston?

Mr. VAUGHAN: I am not sure but I know his views.

Mr. HOWE (*Wellington-Huron*): He is the local provincial member.

Mr. VAUGHAN: There is a very excellent network of highways up there.

Mr. HOWE (*Wellington-Huron*): There is not even a bus service across, and they still have to go down to Guelph and back up again.

Mr. GORDON: We could not establish an economic justification for doing what you suggest, Mr. Howe. I know there was quite a clamor a few years ago in regard to it.

Mr. HOWE (*Wellington-Huron*): Yes, it does not seem reasonable to me to go ten miles when a rail liner would give a little better service to that part of Ontario.

Mr. GORDON: If we are ever going to get our passenger business on a basis of break even, or to cut out our deficit, we must rigorously cut out services which are losing money.

Mr. HOWE (*Wellington-Huron*): You would make more money if your services were run in such a way as to be more convenient to the travelling public. I recall a time when the rail liner would come down on Sunday night but would not make a connection at Guelph. So those people who wanted to go to Kitchener would have to get on a bus at Guelph after the train had gone twenty minutes before. This has been corrected now, but still it is an instance where your co-ordination of time tables did not work to the benefit of the travelling public.

Mr. GORDON: I shall take back your views to our passenger people and make them give me the answers.

Mr. IRVINE: The question I would like to ask may already have been asked, because I have been in and out of this committee of necessity many times today.

I am referring particularly to the city of London, my riding. I am wondering why the schedules of the C.N.R. coincide very much with the schedules of the C.P.R. For instance a train leaving London in the morning at eight o'clock is matched by a C.P.R. train leaving London at approximately the same time. These trains also return to London at approximately the same time. This seems to me to be rather an odd situation.

Mr. GORDON: I cannot picture in my mind the particular service to which you have reference at this moment, but you must remember that London is a terminal of the different companies and the service provided by each is

independent in respect of different points. Therefore, convenience of time has to be recognized in terms of the individual and different territory of service. Service from London to Toronto, if we may consider that in respect of each company involves service to different points, and we must consider the convenience of time in respect of these intermediate points. I agree that when the trains both leave at the same time it seems rather strange. The same applies here in Ottawa where different territory is covered by the C.P.R. to that covered by the C.N.R. in service to Montreal, and that service must be convenient in time to those different points.

Mr. IRVINE: I am not complaining about the service because it is good. There are only two hours travel time between London and Toronto, and that is much superior to air traffic when one considers all the factors, but it seems to me that when the majority of traffic is travelling directly to Toronto, in spite of the fact there are different areas being served, and I have in mind the fact that the C.N.R. goes to Hamilton whereas the C.P.R. does not, it is rather strange particularly to individual passengers when the trains leave London at eight o'clock and there is not another opportunity to leave London to Toronto until one in the afternoon.

Mr. GORDON: We must take into consideration the fact that the people at the different points want to be served at convenient times.

The CHAIRMAN: Mr. Fisher.

Mr. HORNER (*Acadia*): Mr. Chairman, on a point of privilege, I say this with a great deal of respect to you because you have been very good to me. I put my hand up and you acknowledged it at the beginning of this committee meeting and I was here shortly after 7.30. I put my hand up again and you acknowledged it for the second time before Mr. Fisher came into this room. I do not wish to take up any more time in this committee than is due to me, but I think I should receive some compensation for getting here as reasonably close to 7.30 as possible. I remind you that Mr. Fisher was not here until I had put my hand up and been acknowledged for the second time.

The CHAIRMAN: Mr. Horner, you did ask questions in respect of passenger services, and you will have another opportunity to ask questions after Mr. Fisher has concluded. I think I should give an opportunity to other members to speak.

Mr. HORNER (*Acadia*): I might as well come in at eight o'clock, rather than at the beginning of the meeting because I will be recognized at the end of the meeting in any event. It certainly does not help a member to come early.

Mr. FISHER: Mr. Chairman, I would hate to push the member out of order.

Mr. HORNER (*Acadia*): It is not that I have a very important question to put to the witnesses before this committee.

The CHAIRMAN: Will you bear with me, Mr. Horner? I am trying to be very fair.

Mr. HORNER (*Acadia*): I think your action is not absolutely fair, and I bring this to the attention of the whole committee. A member is recognized in spite of the time he arrives at the committee meeting.

The CHAIRMAN: Order, please.

Mr. HORNER (*Acadia*): I was speaking to a point of order.

The CHAIRMAN: As chairman of this committee I have been very fair and I have your name on my list after Mr. Fisher.

Mr. Fisher, will you commence, please?

Mr. HORNER (*Acadia*): I realize that fact and that is why I objected.

The CHAIRMAN: I am trying to distribute the questioning time fairly between members.

Mr. HORNER (*Acadia*): I may as well come in at the end because I will be recognized at that time anyway.

The CHAIRMAN: Let us discontinue this type of discussion. You asked questions on this subject at 7.30.

Mr. HORNER (*Acadia*): I was here at 7.30.

The CHAIRMAN: You questioned Mr. Gordon at that time.

Mr. HORNER (*Acadia*): Yes, and I should like to question him again.

The CHAIRMAN: You will have an opportunity to do so following Mr. Fisher's questions.

Mr. HORNER (*Acadia*): I think a member should be recognized when he puts his hand up.

Mr. FISHER: Mr. Gordon, in the mid-1950's when the Canadian Pacific Railway introduced their new trend you indicated to this committee that the C.N.R. had no intention to introduce dome or vista cars?

Mr. GORDON: Yes, I made a number of remarks, but my main statement has always been along the line that we were paying out a certain amount of money to rehabilitate our passenger service and were prepared to spend that money in as widely distributed an area as possible, but that we preferred to improve the general standards of our passenger cars, which at that time were in a very run down condition. We did not believe that the use of dome cars involved the best way of spending money at that time. I have never said at any time in a committee that I could not change my mind, and the fact of the matter is that with our experience in respect of the red, white and blue service and the response to that service we put on the new panorama trains. Our people recommended them and when we received this very advantageous offer acceptance was authorized.

Mr. FISHER: I thought you would be prepared to give credit to the general wisdom of parliamentary committees which has been expressed over these past years.

Mr. GORDON: If it was wisdom I will acknowledge it. I thought this was just a chance to take a crack at me, that is what I thought this was.

Mr. HORNER (*Acadia*): I should like to direct a question to Mr. Gordon in respect of equating profit and loss on passenger traffic. Passenger traffic, as I understand it Mr. Gordon, is still operating at a loss?

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): Do you operate a passenger service in the United States?

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): Are you still operating passenger service at a loss in the United States?

Mr. GORDON: I do not know. This is a very difficult thing to work out in respect of the United States. I would say by and large we are not far off breaking even. We have cut out a lot of passenger service in the United States.

Mr. HORNER (*Acadia*): You are not far off breaking even; is that right?

Mr. GORDON: We are not far off breaking even.

Mr. HORNER (*Acadia*): How do you equate passenger service in the United States in respect of charging it off against losses in the United States?

Mr. GORDON: Your question involves a matter of cost accounting formulas which attempt to take account of the kind of expense we would save if we

cut off passenger services. There is a formula which we use to charge for that cost. This is a difficult formula in any event and it is very difficult to work out. Generally speaking, the expense in respect of a passenger service line is much higher than that in respect of a freight line. It costs much more money to maintain a line to carry human beings than it does to maintain a line to carry grain.

Mr. HORNER (*Acadia*): You are concerned about Mr. Grégoire being able to sleep; is that right?

Mr. GORDON: That is right, yes.

Mr. HORNER (*Acadia*): Do you have any rule of thumb regarding your method of equating profit or loss against United States lines for passenger service?

Mr. GORDON: No. Such an equation would require a very difficult analysis in regard to particular points.

Mr. HORNER (*Acadia*): Can you give me any idea of the equation in this regard? You suggest that the cost of maintaining a passenger line is higher than the cost of maintaining a freight line. Do you have any rule of thumb percentagewise in this regard? Does it cost twice as much to operate a passenger line as a freight line, for example?

Mr. DEMCOE: Actually there is very little difference in the maintenance required to run a freight line. It requires about the same amount of maintenance to run a freight train at 60 m.p.h. as it does to run a passenger train at 80 m.p.h. It requires about the same maintenance, alignment and other services, in respect of a freight train as in respect of a passenger train operating both at high speeds.

Mr. GORDON: You are referring now to the highball freight?

Mr. DEMCOE: Yes.

Mr. GORDON: That is quite right in respect of a highball freight which is kind of a super duper train, but we cannot run a highball freight on every line.

Mr. DEMCOE: That is true.

Mr. HORNER (*Acadia*): I am concerned with passenger lines, and we are dealing with passenger lines rather than highball freight lines. I am trying to find out how you equate the profits and losses, and whether you are actually losing on passenger services. You have a figure which you charge against maintenance of lines?

Mr. GORDON: Yes. This involves a cost accounting formula which we produced again before the royal commission when we demonstrated our passenger losses.

Have you got the figure for passenger losses that we presented to the commission?

Mr. TOOLE: Yes. In 1963 it was \$43,500,000.

Mr. GORDON: Is that the figure we produced to the commission?

Mr. TOOLE: No, this is based on the commission formula.

Mr. GORDON: What was the figure we gave the commission?

It was something over \$50 million.

Mr. TOOLE: It was \$50,300,000.

Mr. GORDON: We demonstrated to the commission and it was accepted by them, on the basis of our cost accounting calculation, that our passenger deficit in total was something over \$50 million and on that basis they arrived at their recommendations in regard to the passenger deficit. Since that time we have been able to apply the same formula to our full passenger business and we have cut about \$10 million off that deficit.

Mr. HORNER (*Acadia*): Am I correct in my interpretation of your reply that three or four years ago the Canadian National was losing something like \$50 million a year on passenger service?

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): And, today, you think it is \$40 million?

Mr. GORDON: Yes, using the same formula.

Mr. HORNER (*Acadia*): If I remember correctly, three or four years ago the Canadian National was losing something like \$1 million on passenger service in the United States, or am I wrong in my recollection of that figure?

Mr. GORDON: I do not think that figure ever came up.

Mr. HORNER (*Acadia*): It would not be anything like that now?

Mr. GORDON: No, it would not.

You see, our United States situation, which I have discussed in previous committee hearings, is a peculiar situation. We show a substantial deficit, for instance, in our Grand Trunk Western line, and that is the result that we report to the United States government for income tax purposes. It is a perfectly legal figure in terms of the accounting methods applicable only to the Grand Trunk Western line. But, we make our own analysis to establish whether or not the Grand Trunk Western is a losing proposition, and on that basis we analyse the full operation on a basis of what we call its feeder value. On the basis of that value as it contributes to traffic on the Canadian National system as a whole we show that operation to be profitable.

Mr. HORNER (*Acadia*): Yes, this is very interesting. I am not going to deal with the feeder value of United States lines until we get further along in the committee report because I want to tie it in with the feeder lines in western Canada. At this time I want to revert to passenger lines and passenger equipment. Have you a formula in Canada to equate maintenance costs per mile of travel to a particular passenger train?

Mr. GORDON: No, I do not think we can break it down that way. It is a formula approach that was approved by the commission and we use that for the over-all passenger situation.

Mr. HORNER (*Acadia*): One of the gentlemen there—and I am afraid I do not know his name—

Mr. GORDON: Is it Mr. Toole?

Mr. HORNER (*Acadia*): —spoke of the formula, in which they did this equating before the royal commission. Do you have that there and could we be given it, or is it a long lengthy document?

Mr. TOOLE: I do not have it.

Mr. GORDON: It is a terrific thing. It is a tremendous thing, and it is completely incomprehensible. I will give you an example of it, if I can find it here.

Here is a question having to do with the form of cost accounting applicable to variable costs. The question was for an explanation of the "coefficient of variable cost". Here is the answer from the witness:

The coefficient of variable cost emerges from the regression equation. To explain it I have to explain a little about what a regression equation does. Regression analysis is essentially a way of inferring from variation in expenses by division, and variation in output units of different types of transportation services by division, the cost of an additional unit of one type of transportation service holding constant the volume of other types of transportation service produced. The coefficient which emerges from the regression equation is a number which comes

through the solution of a series of simultaneous equations, each of which is developed from calculus and is designed to show the quantity of the particular value of the equation which will minimize a functional relationship between the predicted and the actual values.

Now, the regression equation, or the coefficient of variable unit cost, is, therefore, that part of cost which varies with changes in the particular traffic volume to which it is attached.

Mr. HORNER (*Acadia*): Why did you not say that?

Mr. PASCOE: It sounds like Paul Martin.

Mr. GORDON: That is the clearest explanation I can give you, and I further point out you brought that on yourself.

Mr. HORNER (*Acadia*): Well, I am not satisfied with it one bit. It is just a conglomeration of words making no real attempt to explain or to simplify it.

Mr. GORDON: No. The point is that this is the answer which the experts on the subject of cost accounting for railways agreed is the proper formula, and the experts understand it. In my own business I deal with the advice of my experts; I do not profess to be a cost accountant expert and I am not going to try. But, I know if I follow the rules they lay down for me then I am safe. It is the same as putting a ship down a canal; so long as they keep it within the buoys they are safe, and I operate in that way.

Mr. HORNER (*Acadia*): I do not doubt but that it makes sense if you and I and several other people sat down and tried to figure it out. What I am saying is that the interpretation of the definition of the word formula should be a simple rule of thumb. I am back to my old favourite expression of how to do something or how to arrive at an answer.

Mr. GORDON: Yes, but it does not have to be comprehensible to the layman. There are all kinds of formulae in the chemistry business which you and I never would understand but they are perfectly clear to an expert.

Mr. HORNER (*Acadia*): Yes.

Mr. GORDON: As I say, this kind of formula touching on cost accounting is perfectly valid in the hands of an expert.

Mr. HORNER (*Acadia*): Yes, but I am asking for a simplified rule of thumb how you arrive at whether or not a passenger line is losing money. How much do you charge for maintenance of that line on the X number of trains running over it a week?

Mr. GORDON: We express it under formula the cost accountants produce for it.

When I ask a question like that I call up the man in charge of that department and tell him I want an answer to whether or not such and such a train is losing money, and I get it. I do not call him up and say I want to know how you did it because I would be wasting my time. I know he is hired for that purpose, and I depend on him. He has the formula, and other people who have the knowledge I do not have can check him on it and make sure it is a valid approach. It is not the work of one man; it is checked.

Mr. HORNER (*Acadia*): Yes, I quite realize that and I do not expect you to know just how they arrive at this. But, I do think that there should be a simplified form which they could charge against so many trains for so many miles of run.

Mr. GORDON: To them it is simple. It takes them no time at all. They know the ropes and know what it means.

Mr. HORNER (*Acadia*): I am glad you have read it into the record. I will read it and I will make a thorough study of it from the record.

I have one further question in regard to passenger service. While I do not want to bore the committee I do intend to make, to my mind, a full examination of Canadian National Railways report, and I really do not care whether we finish tonight or not, although I consider that I have been most co-operative in expediting this committee and I have forborne to ask many questions which I could have asked—but attitudes do change.

With regard to the last paragraph on passenger travel, you have introduced a "Car-Go-Rail" system. I want to know how this is panning out, when it was first introduced and whether it looks as though you will continue it in the future. Is there a future for it?

Mr. GORDON: I just answered that question a few minutes ago.

Mr. HORNER (*Acadia*): With regard to carrying and taking on—

Mr. GORDON: Mr. Pascoe asked the question and I answered it.

Mr. FISHER: We cannot have any repetition, Mr. Chairman!

Mr. HORNER (*Acadia*): I do not want any repetition, all I want is a clear understanding.

Mr. BEAULÉ: You were here.

Mr. GORDON: You were here and I have answered the question that was asked.

Mr. HORNER (*Acadia*): That is fine. I am all through with passenger service.

Mr. ROCK: In the area from which I come the long haul passengers usually have to embark at Dorval. Your company has been requested by municipalities in that area to build, if possible, a combined station for Canadian Pacific and Canadian National Railways.

I use that station quite often and I do realize that that station is too small for the number of passengers who get on your trains there, and I am referring to long haul passengers. The Canadian Pacific Railway station across the tracks, which also accommodates long haul passengers and commuter service passengers is also too small. I would like to know whether you have any future plan for building a combined station or a station just for your own needs, or whether you have a plan to have private enterprise do it, as in many other areas—private enterprise possibly with hotel facilities or something like that in that growing area.

Mr. GORDON: We have nothing currently in mind in regard to a joint station or a new station for our own purposes, no.

Mr. ROCK: Would you investigate that matter in the near future in that area?

Mr. GORDON: Yes.

Mr. ROCK: This is the western embarkation point, I would say.

Mr. GORDON: That is right. It all costs money, however, and so far I have heard suggestions about not spending money and I am trying to cut down the expenditure. Our information is that our facilities at Dorval are adequate for our needs and I do not believe we have an examination underway or consideration of a joint station which would be a very expensive situation in any event, and our opinion is that it is not necessary.

The CHAIRMAN: Mr. Rhéaume.

Mr. RHÉAUME: I just had one quick question for clarification. Did I understand, Mr. Gordon, that you gave us a figure for the total deficit of \$43 million facing Canadian National Railways this year and that \$40 million of that can be attributed directly to loss on the passenger phase of the operation?

Mr. GORDON: Yes, it would.

Mr. RHÉAUME: In which case, then, Mr. Gordon, this does, I suggest, put a new light on the statement made by the president of the Western Canada Motor Coach Association that the reduction in Canadian National Railways passenger fares that occurred, which did take passengers away from them, was in fact being subsidized by those companies.

Mr. GORDON: No, quite the reverse. The fact that we have taken passengers from them, even admitting that we have, has reduced the deficit.

Mr. RHÉAUME: What you mean is that if you were not taking their passengers you could have lost \$86 millions?

Mr. GORDON: I told you that when we appeared before the royal commission our estimate of our deficit was something over \$50 million. Since then, by our various approaches to passenger business, including the red, white and blue—although not solely the red, white and blue, but including them and other things that we have done—applying the same formula we believe our passenger deficit has been reduced from \$50 million to roughly \$40 million.

Mr. RHÉAUME: So that in fact has saved the taxpayer \$10 million.

Mr. GORDON: Yes, it has in regard to the deficit.

Mr. RHÉAUME: I will abandon my further questions.

Mr. KENNEDY: Mr. Chairman, with great respect to the founding race of this country, do the Indians still have the privilege of travelling at half fare?

Mr. GORDON: Not to my knowledge. Did they ever have that privilege?

Does anyone here in the passenger business know that? It never occurred to me. I never knew it existed.

Mr. KENNEDY: It did. When I was a young fellow I was mistaken for one.

Mr. GORDON: Then you have owed us money all these years!

Mr. MILLAR: And then he got to be a member of parliament and now he travels for nothing!

The CHAIRMAN: Mr. Prittie.

Mr. PRITTIE: Just one question, Mr. Chairman.

On passenger deficits, does Mr. Gordon know if any of the major United States railways which serve great distances, such as the Great Northern and Union Pacific, make money on their passenger operations?

Mr. GORDON: I do not know if any claim to do so except the—

Mr. DEMCOE: Santa Fe.

Mr. GORDON: The Santa Fe and also the one in Chicago.

Mr. DEMCOE: The Chicago North Western.

Mr. GORDON: Yes, a couple do claim to do so. Chicago have done a number of things in regard to the huge, huge, huge commuter business and I read a report the other day in which they said that they have now licked the deficit. The Santa Fe on the long runs is the only one I can remember that feel they are making money on the passenger business.

Mr. COWAN: I know this is a review of the 1963 operation of Canadian National Railways, but you are dealing with passenger services and perhaps this is a proper time for me to ask this question, or perhaps I should wait until we reach "Outlook" to inquire into the situation with regard to commuter services in the metropolitan Toronto area now the hump yard in Vaughan township is nearing completion.

Mr. GORDON: I think I may as well dispose of it now, Mr. Chairman.

The CHAIRMAN: Yes.

Mr. GORDON: There is a committee that has under very deep study, in co-operation with the metropolitan area officials, the determination of what is the best thing to do in regard to the commuter problem in Toronto. We have told them that once we have our hump yard fully operational, once our access line is available so that it will bypass the city, there will be certain of our lines that may have enough capacity to introduce a new type of commuter service. But we have also told them that we would only be willing to do that provided we can get a fare or a return that will meet our costs, and that situation is under heavy study now, as I say, to determine what they want. They have not themselves made up their minds what they want, but if they tell us what they want, we have undertaken to study the matter with them and tell them what it will cost. They then will have to make up their minds whether that cost is going to be met by a fare approach or whether they in turn will be prepared to put up some sort of payment, as has been done in some of the places in the United States already.

Mr. COWAN: How close is the opening of the new hump yard of Canadian National Railways?

Mr. DEMCOE: We hope to have it open this fall.

Mr. COWAN: This fall?

Mr. DEMCOE: Yes, provided the weather conditions permit us to complete the grading and the remainder of the work.

Mr. GORDON: It will not then be fully operational, will it?

Mr. DEMCOE: We hope to have it fully operational.

Mr. COWAN: Then the metropolitan area will be—

Mr. GORDON: The provincial government formed this committee in 1963 known as the metropolitan Toronto and regional transportation study, and the study is placed in the hands of two committees, the executive committee and the technical advisory committee. They have had a lot of work done on it and a lot of study on the fiscal feasibility of operating commuter or rapid kinds of service on the various railway lines as they become available. There has been a lot of work done on it.

*(Translation)*

Mr. BEAULÉ: Mr. Gordon, I have a question regarding passengers. There is a rail-liner passenger service between Quebec and Chicoutimi. It runs very well in summer but in winter, because of fluctuations in temperature and heavy snow, it often runs behind schedule and is very costly to maintain. Since the motors are slung under the locomotive that is what apparently causes the delays. Is it possible to replace this train in winter by a locomotive and passenger-cars, because you seemed a while ago to reduce the cost of passenger-service?

*(Text)*

Mr. GORDON: Well, I could not give an offhand answer to that. It will have to be the result of a study.

Mr. DEMCOE: We used to have a tri-weekly service the year round, but apparently there was not sufficient business there so it was reduced to the point where we do not operate there at the present time. Unless there is sufficient business to cover the cost of operation, I do not think we will replace the service.

Mr. ROCK: I have a small question. I believe I asked this one last year. Is any negotiation going on between the C.N.R. and the Montreal city authorities on the taking over of your northern line for subway purposes?

Mr. GORDON: Yes.

Mr. ROCK: Because last year you said there was not at the time.

Mr. GORDON: You do not read the papers or you would have seen it.

Mr. ROCK: Do not forget I do not always believe what the newspapers say.

Mr. GORDON: But in this case, Mr. Rock, the newspapers printed my statement and they put it in quotations, so you can believe that. We organized a committee meeting of 18 or 19 municipalities, I think, including the municipality of Montreal, and we gave them all the facts in regard to our commuter operation in Montreal. We warned them that by 1966 the commuter service will have reached a saturation point and we would not be able to meet the demands. There is no way for us to improve it. That being the case, we told them that in our opinion the best technical solution was to replace the present railway commuter service with a rapid transit service. We further pointed out to them that we were not in the rapid transit business and we did not regard that as our responsibility. We further suggested, that being the case, that they better form themselves into a body to see on what basis they could organize a rapid transit service themselves with all the municipalities. We got agreement in principle. They agreed with us that the rapid transit system was the right solution. They also agreed that they had a responsibility in respect of it and that there should be a contribution made on some formula basis by each municipality concerned. They have formed their own committee. All we are doing is giving them advice. They have hired consultants who are now busily looking into the situation with the recognition that by 1966 there will be a real problem because we will not be able to get people out on that line and therefore they will have to get it done within the next two years or there will be real trouble.

Mr. ROCK: You are just referring to the northern line?

Mr. GORDON: I am referring to the line right through to the central station, up the northern line going through St. Eustache, and so forth. We have told them also that if they get this rapid transit service properly organized they can count on us to make a fair disposal of our tunnel. In other words, we are prepared to turn over to them the access line for a rapid transit service, so they are working with that assurance.

(Translation)

The CHAIRMAN: Mr. Beaulé.

Mr. BEAULÉ: My question. I was looking over the timetable with Mr. Demcoe and there is a train between Quebec and Chicoutimi, number 162, which operates on a time-table. In winter it is not good enough for the passengers since it is subject to tremendous delays due to the weather. I would ask Mr. Gordon if it is possible to replace that train, in winter, with a diesel locomotive or passenger-cars?

(Text)

Mr. GORDON: That was part of the question asked before on whether or not the rail liner could be replaced in the winter time. I have not heard that there had been much complaint about delay in that respect. You say there have been long delays in regard to the rail liner in the winter time? I have not heard of it.

Mr. DEMCOE: Neither have I heard of any difficulties there.

Mr. GORDON: I will make inquiries. You say there are bad delays in the winter time?

(Translation)

Mr. BEAULÉ: I worked on that line as a former railway employee.

(Text)

Mr. GORDON: Mind you, with the kind of weather you sometimes produce there, I would be inclined to think the regular passenger train might also be delayed under certain circumstances.

The CHAIRMAN: Are we agreed on passenger service?

We now go on to hotels.

Mr. LLOYD: On the question of hotels, Mr. Gordon, I believe you have available the net results of the group of hotels which shows an over-all net loss of \$23,833, which appears on page 11 of the report. Could you give me the details of the losses and gains in this case?

Mr. GORDON: The figures net out this way: Bessborough, net loss \$142,672; Charlottetown, \$22,773; Chateau Laurier, \$206,425; Fort Garry, \$69,107; Jasper Park lodge, profit \$173,627; McDonald, profit \$141,584; Newfoundland, profit \$186,897; Nova Scotian, loss \$84,964. Those figures will net out to a loss of \$23,833, as shown in the annual report.

Mr. LLOYD: Is there any particular reason for the change with respect to the Nova Scotian? There is there a net change of \$203,000 as compared with the year before.

Mr. GORDON: The most obvious reason is that there was a net decline in room occupancy. In 1963 the room occupancy averaged 61.3 per cent, and 66.1 per cent in 1962.

Mr. LLOYD: That is about three per cent difference in occupancy?

Mr. GORDON: No, actually it is 4.8 per cent down.

Mr. LLOYD: To come next to the Chateau Laurier, for example, you have there a loss of \$206,425 as compared with 1962. That is a difference of \$60,000. Is this owing solely to a decline in room occupancy or is it owing to some other factor?

Mr. GORDON: The Chateau Laurier is of course undergoing quite a rehabilitation process, and under our accounting system, certain of these expenses were charged to operating expenses.

Mr. LLOYD: Was there a decline in the occupancy of the Chateau?

Mr. GORDON: The occupancy rate at the Chateau in 1963 was 60.4 per cent, and in 1962 it was 60.9 per cent, practically the same. There were major repairs to the Chateau totalling about \$85,720 and these were charged to current operations. We show it in the annual report where we show major repairs to buildings in the amount of \$354,947, of which the amount of \$85,700 was chargeable to the Chateau Laurier.

Mr. LLOYD: You follow the generally accepted practice of capitalizing rehabilitation expenses if calculated, and they have a benefit over a period of years, or do you have some rule to write off alterations?

Mr. GORDON: Will you give him the accounting procedure?

Mr. TOOLE: We capitalize all normal additions to the property, but where the work is classified as repairs, it is naturally charged to current operations.

Mr. LLOYD: You have major repairs to buildings in 1963 as a separate item in your report in the sum of \$354,947. But that figure is not included in it?

Mr. TOOLE: Yes, it is in the figure which I read out.

Mr. LLOYD: They are distributed to each of these?

Mr. TOOLE: Yes, and we included the Nova Scotian. The sum of \$186,796 in that figure belongs to the Nova Scotian.

Mr. LLOYD: You say there were \$186,796 of major repairs?

Mr. TOOLE: Yes.

Mr. LLOYD: What would be the character of the major items of repair which you have written off in that year?

Mr. GORDON: Well, in that there is the whole business of the extensions. When we made an extension to the Nova Scotian we found that when we got to the inside of the building, we discovered that in the old wing the electrical wiring and plumbing was in very bad condition. After we finished the extension of the hotel, we tackled the job of modernizing the old work, and that is the sort of thing that goes into the \$186,796.

Mr. LLOYD: That modernization would be expected to last for some time, would it not?

Mr. GORDON: Oh yes, I think it should last for 25 to 30 years, I would hope.

Mr. LLOYD: So as far as I can see unless you have some other major repair items not yet done, you are in a profit position with respect to the Nova Scotian.

Mr. GORDON: I would hope so, yes. We have had special difficulty also in the Nova Scotian with regard to the exterior wall of the old original building from which we have never been able to keep out water. It is a cumulation of circumstances; we have not solved with any kind of insulation the problem of water going right through the stone. High winds and the effect of salt spray, or whatever it might be that you have there, have definitely over the years seeped through the walls of the building. In certain kinds of storms we have had water pour into the old building and we have not been able to lick the problem yet.

Mr. LLOYD: There was a change of liquor law in Nova Scotia to permit cocktail lounges and the like, and you constructed one in the Nova Scotian which is called the "Chart Room".

Mr. GORDON: Yes.

Mr. LLOYD: That would be capitalized or written off as a major alteration?

Mr. GORDON: How was that done?

Mr. LLOYD: If it is too far back for you to recall, very well.

Mr. TOOLE: Most of it would likely be an extension. There would be some capital appropriation to build it, but if it is a modification of an area, it would be written off.

Mr. LLOYD: I do not recall it, but could you inform us when the tax agreement with the city of Halifax expires in this case?

Mr. VAUGHAN: It expires in 1966, I believe.

Mr. LLOYD: Merely to straighten out the question which arose the other day when Mr. Vaughan informed the committee that the reason there was an agreement in Halifax was that legislation existed whereby a tax exemption was possible for a competing hotel, the Lord Nelson. For the sake of the record I think we should straighten it out, and say that the Lord Nelson hotel agreement was never consummated because it failed to comply with very stringent conditions. Subsequently, when the operators of the Lord Nelson—who were new operators—undertook a new plan, they sought a tax agreement, but were only successful in obtaining a very modified assessment. I merely want to point out, as Mr. Vaughan has suggested, because it existed, the Nova Scotian hotel had the right to seek equivalent treatment. That is fair enough. This leads me to my next question. If this is a valid construction of events, would the railway consider renegotiation now of their tax liability to the city of Halifax in view of the fact that the Lord Nelson hotel agreement was never consummated?

Mr. GORDON: That is an exercise in logic which rather escapes me.

Mr. VAUGHAN: It is a *post hoc, propter hoc* thing!

Mr. GORDON: It is an exercise in logic. The reason why the incentive to the Lord Nelson, which had been previously agreed upon, was no longer found to be necessary was that the Nova Scotian had in the meantime gone ahead with its extension.

Mr. LLOYD: I do not think that is quite right, because subsequently there was another hotel, and a 100-room motel built downtown. I do not want to go into it. I am satisfied that in 1966, with this information, you will have an interesting negotiation with the city of Halifax in accordance with what you previously advised us to do.

Mr. VAUGHAN: I want to clarify something. I do not want to leave a wrong impression. I thought your question to me was when the agreement with the city of Halifax expired, and I said 1966. That is correct. However there is another agreement vis-à-vis the hotel which I understand runs from 1961 for a period of ten years.

Mr. LLOYD: The present agreement ends in 1966.

Mr. VAUGHAN: The general agreement outside the hotel property expires in 1966. But the agreement relating to the hotel itself goes to 1971.

Mr. LLOYD: You say 1961 and 1971.

Mr. VAUGHAN: Yes.

Mr. LLOYD: Thank you. Now, Mr. Gordon, the Charlottetown hotel had major alterations done to it, I believe sometime in the last year, did it not?

Mr. GORDON: We did some alterations to it, yes.

Mr. LLOYD: Could you give me some idea of what the amount of these alterations was?

Mr. GORDON: Yes.

Mr. LLOYD: While Mr. Gordon is looking up his figures may I point out I learned a short time ago that these microphones are somehow tied in with the interpreter's staff.

The CHAIRMAN: Yes.

Mr. LLOYD: So if we talk on the side, would they pick up such unrecorded information as well?

The CHAIRMAN: I would not know.

Mr. HORNER (*Acadia*): I hope that my remarks are not being carried on tape.

The CHAIRMAN: I understand that it is only when the operator opens the switch.

Mr. GORDON: The amount set for 1963 was \$37,202.

Mr. LLOYD: The Charlottetown hotel was sold in the meantime, was it not?

Mr. GORDON: Yes.

Mr. LLOYD: Was it sold subsequent to this fiscal period?

Mr. GORDON: Yes, the actual sale has been announced. Actually the negotiations have not been completed because the date of delivery in respect of any sale will be November 1 of this year. In other words, we will finish this year's season before the takeover.

Mr. LLOYD: In the case of the Charlottetown hotel, how did you dispose of it? Did you advertise it by public tender?

Mr. GORDON: No, we did not.

Mr. LLOYD: Did you call for proposals?

Mr. GORDON: No, we did not.

Mr. LLOYD: Were you approached by some prospective purchaser?

Mr. GORDON: Yes, I think I can give you the history of it very briefly. It arose out of this situation: some years ago we were approached by the premier of Prince Edward Island with the request, having in mind the centennial celebrations that were being planned for, that we should enlarge the Charlottetown hotel particularly in regard to the meeting space accommodation. We looked into it very carefully and found that the cost for such an enlargement of the public room accommodations was such that we simply could not justify it in any way, and that the hotel could not carry it. We then informed the premier we could not economically justify it in spite of the interest in respect of it having to do with the centennial. He naturally was very disappointed in that respect and there the matter stood.

However, last year I guess it was, we were then approached and asked if we would meet a prospective buyer, who was introduced to us by the government.

Mr. LLOYD: He was introduced to you by whom?

Mr. GORDON: He was introduced to us by the government.

Mr. LLOYD: Are you referring to the government of Nova Scotia?

Mr. GORDON: I am referring to the government of Prince Edward Island.

Mr. LLOYD: Yes, the government of Prince Edward Island. I am sorry.

Mr. GORDON: One of the cabinet ministers asked us if he could come and talk to us with a prospective buyer, and was the hotel for sale? My reply was that the hotel was not on the auction block, so to speak, but we would be willing to talk to any person who had a sound reason in connection with the purchase and would be able to discuss price with us. That brought about a meeting with a representative on behalf of the Island Development Company Limited. The Island Development Company Limited, we were informed again by the government, had the support of the government for the purposes of studying plans and participating in Prince Edward Island development. In other words, this company is a privately financed company and does not receive any subsidy from the Prince Edward Island government. We were informed that this company had the blessing of the government, having in mind that they were going to engage very specially in the development of the tourist industry from the mainland and in anything connected with it and, therefore, they would be most happy if we could reach an accommodation with them. That then started discussions that continued for a considerable period of time.

Mr. LLOYD: There were no competitors called in to discuss this property?

Mr. GORDON: When the information began to leak, as this sort of thing does, we did have a man communicate with us, a very short time ago, asking if we would be prepared to accept a bid. By that time we were far enough ahead with our discussions that we said no.

Mr. LLOYD: I suppose in respect of the hotel business there are not too many customers around anyway?

Mr. GORDON: That is right. As a matter of fact, I do not mind saying, that some years ago I had a very competent person in the hotel business look at the Charlottetown hotel and I tried to interest him in it. His reply, after he had examined it, was that he would not take it over for one dollar but if we were prepared to give it to him and perhaps pay him for running it he would be interested.

Mr. LLOYD: At no time in this case did you test the market to see whether there were competitive bidders for the purchase of this hotel?

Mr. GORDON: Not so far as I know.

Mr. LLOYD: How do you go about selling a hotel?

Mr. GORDON: We do this by asking various people in the hotel business whether or not they are interested.

Mr. LLOYD: In other words you have a selected group of potential buyers whom you advise and ask to make an offer?

Mr. GORDON: There was no interest expressed at all.

Mr. LLOYD: Let us now move right across the country to the hotel Vancouver. I believe this hotel is now managed under an arrangement with the Hilton hotel system?

Mr. GORDON: Yes.

Mr. LLOYD: It is operated under a management agreement; is that right?

Mr. GORDON: Yes.

Mr. LLOYD: In that particular case did you make any effort to dispose of the hotel?

Mr. GORDON: No. The situation there again involved a different story. First of all the hotel was built in 19— what was the date?

Mr. VAUGHAN: It was completed in 1939.

Mr. GORDON: Construction started on this new Vancouver hotel in the 1930's and because of the depression it stopped half way completed. For some years the hotel just stood there half finished. Then there was a discussion between management of the Canadian Pacific and Canadian National of the day and by agreement the C.P.R. agreed to close their old Hotel Vancouver which they had in Vancouver. They agreed to close that hotel and come into joint account with the Canadian National. There was a joint agreement made in respect of the operation of that hotel. I never thought that agreement was a very good one. It was a very one-sided agreement, in my opinion. For a number of years I tried to get the C.P.R. to recognize that agreement as being unfair. For example, any capital funds, that were required for the improvement of the hotel or rehabilitation of the hotel were, under the agreement, a charge to the Canadian National Railways only, but the operations of the hotel were divided between the two companies. Therefore we were being stuck for all capital improvements and only received half of the advantages from them. We commenced then to cut down on our capital improvements. For a period of years the hotel went downhill in the matter of maintenance and general appearance. Finally, after quite a number of years, the Canadian Pacific Railway and ourselves reached an agreement, that either we would buy out their interest or they would buy out ours. We agreed then to exchange notes in respect of what we were willing to pay them and what they were willing to pay us. As a result of these negotiations we bought out their interest.

Mr. LLOYD: You now own the hotel?

Mr. GORDON: We now own that hotel completely. It is completely owned by the Canadian National Railways. When we accomplished that situation we then began to consider the best way of conducting the rehabilitation of the hotel, and the best type of management we could obtain. In light of our experience with the Hilton interests in Montreal, and after they approached us, we decided that we would enlarge our agreement with them to include the management of the Hotel Vancouver.

Mr. LLOYD: You did not invite proposals from other hotel management companies?

Mr. GORDON: No. As a matter of fact, to be perfectly frank we refused them. We did receive certain approaches but there was no other Canadian approach made, for example, that would give us anything like the world wide coverage that the Hilton organization could. We had experience with their management and we were satisfied. We decided that was the sensible thing to do. This arrangement gives us access to what they call a referred basis in respect of the world wide chain Hilton group. Their world wide affiliation could not be matched by any chain in the world. That was the reason for our decision.

Mr. LLOYD: Under this agreement you do have to maintain the building?

Mr. GORDON: Yes.

Mr. LLOYD: You are responsible for any reasonable capital alterations that may be initiated from time to time?

Mr. GORDON: That is right.

Mr. LLOYD: You provide the capital?

Mr. GORDON: That is right.

Mr. LLOYD: I presume because this is a lease operation likely they pay the local taxes in full in Vancouver?

Mr. GORDON: Yes, I imagine that is true.

Mr. LLOYD: Is this a long term lease, or a short term management lease?

Mr. GORDON: That fact is not quite settled. We fitted our arrangements in with a lease on the same terms we had in respect of the Queen Elizabeth Hotel. This involves a management agreement which covers 15 years from the date we started, which was when, 1957?

Mr. VAUGHAN: 1958.

Mr. GORDON: It commenced in 1957 or 1958. The two situations are synchronized at the moment, but we may extend that lease agreement, covering both hotels.

Mr. LLOYD: Is there any negotiations for the sale of the Chateau Laurier taking place at the present time?

Mr. GORDON: Are you referring to a negotiation for the sale of that hotel at the present time?

Mr. LLOYD: Yes.

Mr. GORDON: No, sir.

Mr. LLOYD: Under the agreement for sale you made in respect of the Charlottetown Hotel will you recover your net depreciated cost, or do you expect to do even better than that?

Mr. GORDON: Yes, we think we will recover our net depreciated cost.

Mr. LLOYD: You expect to recover your net costs?

Mr. GORDON: We think we will recover those costs.

Mr. LLOYD: You expect to recover your original historic cost less depreciation?

Mr. GORDON: We expect to recover those costs less depreciation, yes.

Mr. LLOYD: Have you sold any other hotels?

Mr. GORDON: Yes, we have sold a number of hotels I think some years ago.

Mr. LLOYD: Thank you, Mr. Gordon.

Mr. GORDON: Thank you.

Mr. HORNER (*Acadia*): I should like to direct one or two questions to Mr. Gordon.

Mr. GORDON: May I just have the privilege of putting this statement on the record. The premier of Prince Edward Island said in his public statement, among other things;

Thus the decision taken by C.N.R. to accept an offer from IDC is fully understood and appreciated by us.

Mr. LLOYD: I have one final question. Do you have any capital investment in the Hilton operation?

Mr. GORDON: In their own operations, you mean?

Mr. LLOYD: Yes. In Vancouver, for example, did you provide any capital in any way for that operation?

Mr. GORDON: Well, we did in the sense you are talking about, the building; we did not provide them with working capital.

Mr. LLOYD: You provided no other capital other than the facility which was already constructed?

M. GORDON: That is right. They provided their own capital.

Mr. LLOYD: But, you keep it in shape for their occupancy?

Mr. GORDON: Yes.

Mr. PRITTIE: And, you pay for renovations?

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): In regard to the Vancouver operation I presume you are getting back real good interest on your investment?

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): You are borrowing money from the government and are getting back a good interest rate on your investment out there?

Mr. GORDON: You see, in the agreement, in figuring out the net profit we make on it we include the cost of our money, depreciation and any other proper charges.

Mr. HORNER (*Acadia*): But, if it is leased how does it operate at a loss?

Mr. GORDON: A loss to us?

Mr. HORNER (*Acadia*): Yes, and I am referring to the Vancouver hotel. You have it down here as a loss.

Mr. GORDON: Yes, but this is before we affiliated with Hilton. This is when we operated this hotel ourselves. Those are 1963 figures you are looking at.

Mr. HORNER (*Acadia*): Now, you have a guaranteed profit on the Vancouver hotel, I suppose, in a sense.

Mr. GORDON: I hope we will but it depends on the record of Hilton's new management. I do not expect that this will happen in a short time but once we have the hotel brought up to modern standards and have the benefit of their management I think it will show a profit. However, this will take a few years yet.

Mr. HORNER (*Acadia*): In other words, your agreement is a percentage of the profits?

Mr. GORDON: Of the net profit, yes.

Mr. HORNER (*Acadia*): It is not any guarantee at all.

Mr. GORDON: No; it is a percentage of the net profit.

Mr. HORNER (*Acadia*): In other words, you have given it to them to operate with no capital outlay on their part?

Mr. GORDON: Except the working capital.

Mr. HORNER (*Acadia*): Except the working capital?

Mr. GORDON: Yes. Hilton does this sort of thing all over the world, you know, and we have the best agreement with them that they have given to anyone in the world. In other words, our percentage split higher.

Mr. HORNER (*Acadia*): You are not concerned with Walter Gordon's anxieties over American take overs or anything like that?

Mr. GORDON: I do not think this has a bearing on this case. We have made an agreement with a worth-while company that is to our advantage, yes. Mind you, Hilton of Canada is running this hotel. There is a Canadian company which is called Hilton of Canada Limited, and it was formed for the purpose of handling their Canadian operations, and we are doing business with them. We have made a lot of stipulations, one of which is that 95 per cent of the employees must be Canadians.

Mr. HORNER (*Acadia*): Well, the same applies with the oil industry in Alberta; 95 per cent of the people employed in that industry are Canadians.

Mr. GORDON: But, is it guaranteed that they will be?

Mr. HORNER (*Acadia*): No, but it is, in fact the case. 67 per cent of the oil industry is owned by Americans. This is what we are told.

Mr. ROCK: But they do not own the hotel.

Mr. HORNER (*Acadia*): No, but they have the use of it, and it is a Canadian government enterprise.

Mr. GORDON: And, we get a split on their profits on a basis that we specify. We are getting more out of the hotel than we could get ourselves.

Mr. HORNER (*Acadia*): Have any of these other hotels which have been losing money been offered to Hilton?

Mr. GORDON: No.

Mr. HORNER (*Acadia*): For example, has the Chateau Laurier been offered to Hilton?

Mr. GORDON: No. I have thought about it but I think we had better be a little careful yet until we see what the atmosphere is.

Mr. HORNER (*Acadia*): The Chateau Laurier in Ottawa has been a continual loser. Am I right in this connection?

Mr. GORDON: No, not a continual loser.

Mr. HORNER (*Acadia*): Not a continual loser but a perennial loser.

Mr. GORDON: I will have to look that up.

Mr. HORNER (*Acadia*): I am basing my question on a remark you made in a previous committee some years ago.

Mr. GORDON: Did I say that about the Chateau?

Mr. HORNER (*Acadia*): Yes.

Mr. GORDON: Well, if I said it I must have been right. I am hesitating now because I have not the figures before me. There were years we made a profit.

Mr. HORNER (*Acadia*): I am not stating there were not any years that you did not make a profit; I am saying that most years you did not make a profit.

Mr. GORDON: Yes. Here it is now. I have a table here which shows that the Chateau Laurier lost money in 1962, 1961 and 1960 and it made money in 1959. It shows a profit in 1959 of \$77,443, and I put that on the record in 1964.

Mr. HORNER (*Acadia*): One out of four years. This is good enough. This bears out what I was thinking, that most times it loses money.

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): Well, you have not given any consideration to turning it over to Hilton of Canada?

Mr. GORDON: Yes, I have given very positive consideration to it but I have decided that for psychological reasons it probably is not psychologically advisable at this particular time.

Mr. HORNER (*Acadia*): You say that for psychological reasons you have decided that it probably is not psychologically advisable at this particular time. Could you enlarge on that?

Mr. FISHER: Now, he does not need to do that.

Mr. GORDON: I think it is pretty clear.

Mr. HORNER (*Acadia*): Certainly, this is pretty obvious to me but I want on the record why Hilton cannot take over the Chateau Laurier right here below capital hill but they can 2,000 or 3,000 miles away in Vancouver. If these two takeovers were possible do you agree that it would be vastly different?

Mr. GORDON: The circumstances in Vancouver lent themselves to making a deal with Hilton. You were here when I was describing our situation with the C.P.R. We had a very unsatisfactory agreement with them. We managed to get out of it and the situation was ripe for making an agreement for the rehabilitation of the hotel and obtaining new management. Also the Vancouver location is particularly suitable for Hilton operations in association with their world wide affiliation. Hilton was much more interested in a Vancouver deal than an Ottawa deal because the same appeal is not here.

Mr. HORNER (*Acadia*): But the psychological atmosphere would be altogether different in respect of the two points.

Mr. GORDON: And, also the business atmosphere.

Mr. HORNER (*Acadia*): I did not ask about the business atmosphere but the psychological atmosphere; it would be altogether different in the two places.

Mr. GORDON: I do not mind saying and putting on the record, if you want that, that I would predict if we made a deal with Hilton on the Chateau Laurier there would be a terrific explosion of public opinion against it.

Mr. HORNER (*Acadia*): I do not mind agreeing with that either.

Mr. GORDON: I am sure of it. We have to decide whether or not the benefit that would accrue is worth that kind of public explosion, and at this minute I do not think it is.

Mr. HORNER (*Acadia*): Let us get farther away from the parliament buildings in respect of the Hilton operation. You lost money on the Bessborough in Saskatoon, did you not, and you lost money in most years with regard to that hotel.

Mr. GORDON: Yes. There is one other point about Vancouver, and it is this; when we made the agreement with Hilton in respect of the Queen Elizabeth hotel one of the features was that Hilton agreed that they would not open a Hilton hotel at any place where we had a hotel. They agreed not to compete with us with the exception of Vancouver, and they reserved that out. So, we were faced with a further condition in Vancouver, that it was not at all unlikely that Hilton would have built the hotel in Vancouver in any event, and we considered it was in our joint interest to join forces rather than be competitive in Vancouver.

Mr. HORNER (*Acadia*): In other words, you do not believe in competition?

Mr. GORDON: Yes?

Mr. HORNER (*Acadia*): Monopolies are good things.

Mr. GORDON: But, when we had a close association with Hilton we thought it made more sense to join forces rather than become competitive in that area.

Mr. HORNER (*Acadia*): Going back to the Bessborough in Saskatoon; that is another hotel which has lost money during most years.

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): Have you made any overtures or been thinking of giving this over to Hilton?

Mr. GORDON: Two or three years ago Hilton made a thorough analysis of each one of our hotels for our purposes. We used them in that capacity as a consultant, and asked them, as such, to review each one of our hotels. We wanted them to do two things. We wanted them to advise us firstly of their recommendations on how the hotels might be improved and, secondly, in which hotels they would be interested. They specifically said in that report they would not be interested in the Bessborough hotel because they could not see how it could be made a profitable operation.

Mr. HORNER (*Acadia*): This would have a relationship to the economic conditions?

Mr. GORDON: No. The competition in Saskatoon has grown tremendously and you now have in Saskatoon a whole section of motels of a character that has really cut out the heart of the hotel business. There is a great big motel right across from the Bessborough hotel.

Mr. HORNER (*Acadia*): This is true all across Canada. The motels are growing up.

Mr. GORDON: No, not as directly as we have found it in Saskatoon. Besides which, the Bessborough cannot stand competition; the market was not adequate in any event for the Bessborough, and when the motel came in it hurt the Bessborough much more than it would have hurt an hotel in a larger city.

Mr. HORNER (*Acadia*): In some trends shown in this annual report you want to become more like Canadian Pacific but in other trends you are confident that you would like to go the other way.

Mr. GORDON: It does not necessarily follow as a matter of fact that, because we want to follow along certain economic and management principles, we necessarily want to be the same as Canadian Pacific.

Mr. HORNER (*Acadia*): On the one hand when it suits your argument you want to be on the same lines and in another case you want to discard those lines.

Mr. GORDON: No, that does not follow. I would be perfectly happy to see us dispose of all our hotels. I do not see why railways should be in the hotel business. I think the day for that has gone.

Mr. HORNER (*Acadia*): No more than in the trucking business!

Mr. GORDON: We are preserving our position in the hotel business to the best of our ability, but those hotels were built in an era when it was considered smart to have them in order to encourage train business.

Mr. HORNER (*Acadia*): Is this true of the Queen Elizabeth hotel in Montreal?

Mr. GORDON: I do not believe the Queen Elizabeth hotel's success is predicated much on passenger business. Their success has been largely because they have provided facilities for large conventions and they have produced a new atmosphere, a new environment, for hotels generally. That is the secret of their success; it does not have much to do with passenger business.

Mr. HORNER (*Acadia*): And it would have very little to do with Hilton.

Mr. GORDON: Very little to do with Hilton?

Mr. HORNER (*Acadia*): Yes.

Mr. GORDON: I would say it had about 100 per cent to do with Hilton.

Mr. HORNER (*Acadia*): In other words, you do not believe any other hotel group could manage it?

Mr. GORDON: I do not believe any other hotel operator could have made the same success of this hotel as Hilton has made, and any other hotel person would agree with that statement.

Mr. HORNER (*Acadia*): Along the same kind of theory would you say, then, that you feel that the Canadian government should look to the United States for someone to take over your job?

Mr. GORDON: I do not think I should answer that.

Mr. HORNER (*Acadia*): But it is on the same theory.

Mr. GORDON: This is completely wrong. I have tried to explain that one of the reasons for the Hilton success is that they are in the unique position of being the only people having a world wide chain of hotels of such a character that they are able to refer to us, as one of the links in the chain, a great deal of business that would not otherwise come to us. For example, the success of the Queen Elizabeth hotel to quite an extent is based upon their ability to attract conventions. If we tried to attract conventions we would have to set up convention offices in most of the large United States cities before we would even get a sniff of them. Furthermore, in the convention business and particularly in the large convention business they will be signed up for ten, twelve and fifteen years ahead, and Hilton's success is that he is able to offer them a variety of places around the world; and Montreal, as a link in the chain, becomes attractive to the big convention on a basis that we, as an independent operator, would never be able to accomplish. They have a unique type of organization and a unique way of doing business that has been responsible, as I say, for the success in the Queen Elizabeth hotel.

Mr. ROCK: Agreed.

Mr. HORNER (*Acadia*): I do not agree. However, in regard to the Fort Garry hotel in Winnipeg, is this another one that has lost money in these years?

Mr. GORDON: It has lost money. This four-year analysis shows that the Fort Garry hotel lost money in 1962 and 1961 and 1960, and it made money in 1959. The same record, apparently—

Mr. HORNER (*Acadia*): In the average year it, too, has lost money. Has there been any overture from effective buyers for buying any one of these hotels?

Mr. GORDON: No.

Mr. HORNER (*Acadia*): And Hilton has turned thumbs down with regard to all these hotels?

Mr. GORDON: No.

Mr. HORNER (*Acadia*): I gathered this from your remark.

Mr. GORDON: No, my remark was in connection with the Bessborough. I said the Bessborough is one they would not take over, and another they would not take at any price was the Charlottetown. I cannot remember what they said about the Fort Garry; I am inclined to think they said they were interested in the Fort Garry but that it would need a lot of change and construction and so forth. Right now we are engaged in a considerable program for the Fort Garry.

Mr. HORNER (*Acadia*): In the Vancouver hotel you have to do all the maintenance and repair work with your lease with Hilton?

Mr. GORDON: No, the maintenance work would be a charge to the operating expenses which Hilton would absorb in the accounting before they came to a division of the net profit.

Mr. HORNER (*Acadia*): But the repair work?

Mr. GORDON: It depends what is capital and what is operating. Again, you get the hotel accounting formula. If it is a capital expense, we put up the money and the interest on our outlay is, of course, a charge to the amount of profit that we get. But they charge to operating expenses all the maintenance charges as operating costs, and that is taken care of before the amount available for division of the net profit is arrived at.

Mr. HORNER (*Acadia*): Then it is logical to assume in a sense that if you have capital costs you would also be charged the taxes? Or who pays the taxes?

Mr. GORDON: The taxes are regarded as an operating cost.

Mr. HORNER (*Acadia*): They are regarded as operational costs?

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): And in this case Hilton would be paying them out of the hotel Vancouver?

Mr. GORDON: That is right.

Mr. HORNER (*Acadia*): Can you give the committee any idea—perhaps we could gather it from your report here with regard to the Vancouver hotel—of your revenue with regard to the Queen Elizabeth hotel, the direct revenue from Hilton and then your own operating costs in that particular hotel in regard to capital maintenance?

Mr. GORDON: The figure for the Queen Elizabeth is shown here.

Mr. HORNER (*Acadia*): This is your net profit?

Mr. GORDON: This is the net, yes.

Mr. HORNER (*Acadia*): You have not the gross revenue which you received?

Mr. GORDON: That is not our revenue. We do not receive any of the gross revenue. That goes into Hilton's hands and they make the charges against it and arrive at the net profit.

Mr. HORNER (*Acadia*): I was talking about your gross revenue from Hilton of Canada. I can understand it is just a shade better than the net income.

Mr. GORDON: Well, yes; the only charge we would have against that would be our own interest costs, would it not?

Mr. TOOLE: Our depreciation and amortization.

Mr. GORDON: Yes, our depreciation and amortization of equipment.

Mr. HORNER (*Acadia*): The Jasper hotel was one which has been reasonably successful at operating at a profit over recent years.

Mr. GORDON: No, recently we have been doing better but there have been years when we have had substantial losses.

Mr. HORNER (*Acadia*): Yes, but recently they have been doing substantially well. Have there been renovations to it recently?

Mr. GORDON: Yes, very substantial. You must remember it was built back in 1923 and quite a number of the cabins have reached a state where they had to be replaced. You may remember also that we had a very disastrous fire in Jasper some years ago.

Mr. RHÉAUME: Mr. Gordon, the extent of my comment on this whole section of the hotels will be limited to a statement. I am making it here only because I cannot for the life of me see where else I can make it and I want you to comment on it. It relates to the Chateau Laurier and in particular to the inadequacy of the service in the bar.

Mr. GORDON: Inadequacy?

Mr. RHÉAUME: The inadequacy, yes. I spend a lot of time tracking down a good drink of sauce all over Canada, whenever I am around, and I want to suggest to you that the service in the Chateau Laurier hotel lounge is the worst in Canada. As I say, as a time killer and for other reasons I make a point of going into bars in Canada, and I am wondering—and this is not only my own opinion because I discussed it with quite a few other people—whether there is some peculiar problem in relation to this bar in the nation's capital, or has this ever been drawn to your attention before?

Mr. GORDON: I have never heard this particular comment but I will most certainly take it up with the manager. We have been doing a lot of rehabilitation of the hotel and that may have caused some difficulties in regard to the service in recent times.

Mr. RHÉAUME: I am saying this because I suggest to you that no matter what time of the day it is, whether at the very busy cocktail hour or in the middle of the afternoon—just to get a little straightener—it is just impossible to get service in that bar.

Mr. FISHER: For the record let me say I have never had a complaint about the Chateau Laurier.

Mr. RHÉAUME: Mr. Fisher has had another experience—I am registering mine.

Mr. GORDON: Of course, I have no personal experience of this at all, but I suppose I would not be the sort of average person—that would not be recognized. My point is this: certainly recently there may have been trouble by reason of the fact that we are under extreme difficulty in regard to the renovation program which we have in the Chateau Laurier. That will pass by. We have recently remodelled the cafeteria, and it is very successful. We have had a lot of letters from people complimenting us on what we have done there. I am disappointed to hear your comment, but I will take it up with the manager and find out what the trouble is.

Mr. RHÉAUME: I am not making my comment facetiously. It is important in the largest hotel of the nation's capital, where people spend a lot of time, to have a good meeting place.

Mr. GORDON: As part of our rehabilitation program we have a very definite change being provided for the bar. There is going to be a more convenient access to it, and generally speaking it is going to be kept up on the basis that I hope will engage your attention so that you will increase the number of your visits.

Mr. RHÉAUME: This will not be easy.

Mr. GORDON: Increase your number of visits so you will reach a condition where everything will just look wonderful.

Mr. PRITTIE: Mr. Gordon, I think it is fair to draw the conclusion from your remarks that if Hilton were willing you would have them manage all your hotels.

Mr. GORDON: I do not want to commit myself on that, that would be an indiscreet comment, but I do say this, that if Hilton were willing, in regard to certain of the hotels, it would probably be to our advantage. However, there is a psychological factor that we must take into account. I do not believe it would be wise for us to face the situation of turning all our hotels over to the management of Hilton.

Mr. PRITTIE: To comment on that, I do not consider a management contract a takeover in the sense of a Canadian industry or firm being bought out by an American firm. The public needs to get used to the Chateau Laurier under other management, and perhaps this is the time to start. You say that a great deal of success in Hilton operated hotels comes from the fact that they can

make convention arrangements across the United States. Is there any other reason? Are their management techniques more efficient than your own, quite apart from this ability to bring in the convention business?

Mr. GORDON: Yes, that is a fair enough statement. If I remember the figures, well over 50 per cent of the revenue comes from these large conventions. Hilton have been very successful in their original ideas of service, catering to the needs of the public on the basis where people just like going there. They have also, for instance, through their connections been able to bring to the night club atmosphere of the main room, the Bonaventure, shows that Montreal would never otherwise have. They have come here because of the Hilton name. They are often tested out in Montreal on the basis that if they succeed in the Bonaventure Room in Montreal they know they have a good chance of being used in other places around the world. That means we get types of entertainers and types of shows that Montreal has never seen before. They just did not come here. So that there is a Hilton touch that explains why they are the most successful hotel operators in the world. They do not get that way just because they are big. They are admittedly recognized as the most successful hotel operators in the world—they are the byword in the industry.

Mr. PRITTIE: I have another question about the Hotel Vancouver. I believe some of the unions got in touch with some of the members about pass privileges that some of the senior employees enjoyed in the Hotel Vancouver, and they were afraid they would lose them once the Hilton management took over.

Mr. GORDON: There was a period when there was a good deal of talk and negotiation, but it has been straightened out. The arrangements that were necessary have been made. Mind you, you mentioned passes. They do not get passes, however.

Mr. PRITTIE: The C.N.R. employees had this privilege.

Mr. GORDON: They lost it when the hotel went under the Hilton management.

Mr. PRITTIE: Did they lose any other seniority rights?

Mr. GORDON: No, I think they were pretty well protected. However, it was an arrangement worked out with Hilton and the staff, and it has been satisfactorily settled.

Mr. ROCK: To my eyes, Mr. Gordon, you are not on trial here.

Mr. GORDON: Thank you.

Mr. ROCK: I want to ask you a question concerning the system that you have in the Chateau Laurier hotel, that is the system of telephone booths in the lobby. I think it is the most expensive system in the whole of North America. You have to stand in line at a booth and ask the operator to get you the line, and she tells you what booth to go into. You then have to pay 20 cents. This is an ancient system. Do you have any future plan to change the system to the ordinary system used in telephone booths that are installed in any other hotel?

Mr. GORDON: I cannot be specific on this, but this is one of the many things that are in the process of change at the hotel. There is going to be a very distinct change in the Chateau Laurier over the course of the next year or so which will appeal to the public, and this is one of them.

Mr. ROCK: You can understand my concern. There are many conventions in that hotel. Whenever they are in session, as soon as the people walk out you have a fast move towards telephone booths. These people have to stand in the lineup, pay 20 cents, the operator writes the number down on a card. All in all it is a slow process of getting your telephone call through.

Mr. GORDON: It sounds most inadequate and I will make sure it is changed.

Mr. TUCKER: I have a couple of questions, Mr. Chairman. First, I would like to ask how many hotels were owned and operated by the C.N.R. for the year ended December, 1963?

Mr. GORDON: The Bessborough, Charlottetown, Chateau Laurier, Fort Garry, Jasper Park Lodge, McDonald, Newfoundland Hotel, Nova Scotian, and, as I mentioned before, Queen Elizabeth operated under the management of Hilton, and the Vancouver now jointly operated.

Mr. TUCKER: The Newfoundland hotel has made a profit of approximately \$850,000 in the five years of operation.

Mr. GORDON: Yes. The Newfoundland hotel has been showing the highest room occupancy of almost any other hotel.

Mr. TUCKER: Last year you mentioned that some thought and consideration were being given to extending the Newfoundland hotel. Have you yet arrived at a decision in this regard?

Mr. GORDON: Yes, we are not going to extend the hotel.

Mr. TUCKER: May I ask why?

Mr. GORDON: I wish you would not. Do you wish to press the question?

Mr. TUCKER: No, not particularly, no.

Mr. GORDON: Thank you.

Mr. TUCKER: Do I understand that 50 per cent of the profits from the hotel come from conventions?

Mr. GORDON: No. That was the case of the Queen Elizabeth Hotel in Montreal. I happen to know that figure.

Mr. TUCKER: You get credit for most of profits from the Queen Elizabeth?

Mr. GORDON: For their ability to attract large conventions, yes.

Mr. PASCOE: Mr. Gordon has given most of the information in regard to the operation of the Bessborough. But I would like to ask a couple of questions. He said that the loss last year was \$142,672. Was some of that as a result of renovations and refurnishing?

Mr. GORDON: Do you have the figures?

Mr. VAUGHAN: No. There was nothing charged to the Bessborough for any major repairs referred to in the report.

Mr. PASCOE: I find that when I go there without a reservation it is difficult to get a room. Could you tell me the room occupancy?

Mr. GORDON: Yes, it is 44.4 per cent. You say you have had difficulty in getting a room?

Mr. PASCOE: Without a reservation, once in awhile.

Mr. GORDON: Do you have a credit card?

Mr. PASCOE: No, I do not carry them.

Mr. GORDON: It surprises me. I have never heard that. The record shows 44.4 per cent occupancy.

Mr. PASCOE: The cafeteria is always very well patronized. Is it part of the hotel operation or is it something special?

Mr. GORDON: Yes, it is. The Bessborough is also under very definite study to see how we can improve our accommodations and make it more appealing to the general public particularly in regard to our dining room accommodation which is not satisfactory in terms of being able to handle a convention crowd. In other words, the Bessborough hotel is not equipped to handle conventions.

Mr. PASCOE: Are you anticipating a change?

Mr. GORDON: We are trying to, but I do not know whether we will succeed, because from what I have seen, the hotel is built in such a way that it is an

absolute architectural headache to find any way to enlarge the public spaces. To do so would run into a terrible lot of money. Different architects have looked at it. You know the history and you know the general set-up. You would think it was built in such a way as to prevent it ever being enlarged.

Mr. PASCOE: It is a nice looking hotel.

Mr. GORDON: Yes, it is, and if we could overcome that problem and provide larger space for meetings, we could, I believe, attract some conventions which right now we cannot get there.

Mr. PASCOE: Will the relocation of the station a long way from the hotel have an adverse effect on it?

Mr. GORDON: We considered the question carefully and concluded that it would not hurt it very much.

Mr. MACEWAN: My question has been covered.

Mr. LACHANCE: Do the Canadian National Railways have a separate agreement with Hilton in respect of the management of the Vancouver hotel? Or is there to be an agreement for the two?

Mr. GORDON: There is to be a separate agreement with Hilton in connection with the Vancouver Hotel. But it is on the same basis of a split, so to speak, as for the Queen Elizabeth. At the moment we are trying to see if we can make a long agreement synchronous with the Queen Elizabeth Hotel agreement. But it is quite separate in regard to accounting and its money financing.

Mr. LACHANCE: Do I understand correctly that it is only a profit sharing agreement and that the Canadian National has to bear whatever deficit the hotel may have?

Mr. GORDON: There is a profit sharing agreement in connection with the Queen Elizabeth and the Vancouver, which are the only hotels managed by Hilton. The other hotels we manage ourselves. I have given you in the record a list of each one of these hotels. If we have a deficit we absorb it, and if we have a profit, it goes into our profit and loss account.

Mr. LACHANCE: Do they absorb all the deficits?

Mr. GORDON: If there were a deficit in the operation of a hotel managed by Hilton, they would pay it. But if there is a profit, then there is a profit sharing understanding. I might as well tell you what it is. We get 75 per cent of the net profits.

Mr. LACHANCE: I have one last question: Why would you say there would be a public explosion if Hilton should take over the management of the Chateau Laurier?

Mr. GORDON: It is a matter of judgment which I have learned from various people who have a great love for the old Chateau Laurier hotel. They think it would be a terrible thing to change it in any way. I even had protests when we made the bar look a little better. Some people thought we should not even be doing that. There is a great sentimental background to the Chateau Laurier hotel.

(Translation)

The CHAIRMAN: Mr. Matte?

Mr. MATTE: Mr. Gordon, Canadian National set up extraordinary hotel centres, often far from large centres, developing them as outstanding natural attractions. Would you have thought of developing such a centre at Parent, which was at one time a Canadian National centre, until the Minister of Finance created a radar base there? It would apparently be an extraordinary tourist attraction.

(Text)

Mr. GORDON: Yes, but the Canadian National Railways have no intention of enlarging its hotel investment. We do not contemplate building any other hotels.

The CHAIRMAN: Carried.

Now we come to telecommunications.

Mr. CADIEU: It is a quarter to ten.

Mr. PRITTIE: What is the procedure of the committee? The matter was referred to the steering committee concerning the suggestion that Mr. Crump be invited to come to give us his views concerning Canadian National Railways finances. What did the steering committee decide?

The CHAIRMAN: The steering committee met this morning, and it was agreed by the committee that this particular review of the Canadian National Railways report does not call for any witnesses other than the people associated with the Canadian National Railways. So Mr. Crump or others would not be called at this sitting to review the Canadian National Railways report.

Mr. PRITTIE: Is it possible for him to be called at some other sitting of the committee?

The CHAIRMAN: On some other matter, but not on the review of the annual report of the Canadian National Railways.

Mr. RHÉAUME: I understood you received a telegram from the Canadian Trucking Association.

The CHAIRMAN: Yes. I should have mentioned it along with the other matter. It was considered as well, and the same decision was reached on it unanimously by the committee.

Mr. RHÉAUME: As Chairman, I assume you are prepared to bring this before the full committee, not necessarily right now, in order to see what the committee's wishes are in relation to a discussion of the matter raised by the Canadian Trucking Association.

The CHAIRMAN: I was not instructed to do so by the steering committee. I was instructed to communicate its decision when requested. This committee may wish to reverse the decision and ask for authority from the house to call witnesses on the Canadian National Railways annual report. This has never been done, but I should hope a decision would be made then.

Mr. RHÉAUME: Since the steering committee report was not presented formally by you, will you at some stage be presenting us with this document so that we can kick it around before this committee reports to parliament? Will you be giving us that opportunity?

The CHAIRMAN: I think this is a matter which should be raised probably after we have concluded with the Canadian National Railways' report and before we go on to some other business. I would be quite willing to listen to your suggestion after we have completed our examination of the Canadian National Railways' report and the T.C.A. report.

Mr. RHÉAUME: And perhaps before we go back to parliament with any recommendation?

The CHAIRMAN: That is right.

Mr. RHÉAUME: I am also wondering whether you could avoid seeing the clock for a short period of time so that we can ascertain what progress we may make.

The CHAIRMAN: We do not have very much more to consider. Perhaps we could finish tonight. Is it the wish of the committee to finish this item tonight?

Mr. PASCOE: Mr. Chairman, I must say that I have been asked by Mr. Horner to indicate that he has further questions to ask in respect of the subject covering "Outlook".

Mr. RHÉAUME: Perhaps we could make some effort to at least complete the subject we are now discussing before adjourning. The House of Commons commences sitting at 11 o'clock tomorrow morning and I am sure all members wish to be in attendance. Perhaps we could progress tonight to within striking distance of the conclusion so that we can finish our discussions within an hour tomorrow.

Mr. GORDON: I am quite willing to carry on now.

The CHAIRMAN: Mr. Gordon will have to get away tomorrow about 12 noon.

Mr. GORDON: I have a very important matter to attend to tomorrow afternoon so I will have to beg off at noon in any event.

Mr. PASCOE: I am quite willing to carry on but I have been asked to present Mr. Horner's desire to ask certain questions tomorrow in respect of the subject entitled "Outlook".

The CHAIRMAN: Shall we carry on for at least a while in an effort to conclude our questions on this subject?

Mr. CADIEU: I have several questions I should like to ask in respect of the subject entitled "Outlook".

The CHAIRMAN: I am afraid we will not be able to continue our questions in respect of "Outlook" tonight, but perhaps we could complete our questions under some of the other headings. Perhaps we could deal with the item entitled "Telecommunications".

Mr. RHÉAUME: I should like to ask one or two questions in respect of this subject, Mr. Gordon, and particularly in relation to the extensive progress that has been made in the Canadian north by C.N.T. through Canadian National Telecommunications which certainly is providing a tremendous service and living up to all its obligations, which you may consider it has toward providing Canadians generally with that level of service which is absolutely essential to their well-being. This situation is dealt with in your report.

I should like to make one comment in this regard; I think it is important that C.N.T. provides this kind of service allowing thousands of northern Canadians to communicate with their fellow southern Canadians, but I feel that the costs to consumers particularly in respect of these services should be examined very carefully. I believe I suggested to you privately that on occasion I ran up a personal telephone bill of \$400 to \$500 as a result of the excessive cost of telegram and telephone services in the north. I am wondering whether you can tell me if C.N.T. has hopes of financing this service in the first two years or whether it is prepared to amortize the cost over a longer period of time. We desire this service and are prepared to pay for it but I am afraid I am attempting to pay for it all by myself.

Mr. GORDON: When we commenced providing those services we did so on the basis of a study in respect of the economics and set charges in accordance with reasonable amortization principles. We applied the depreciation and amortization approaches in respect of the principles of telecommunications as we have done in respect of anything else.

Mr. DEMCOE: That is correct.

Mr. GORDON: We applied the same charges based on the economic requirements of providing the same type of depreciation for equipment as in respect of any other part of Canada and other facilities.

Mr. RHÉAUME: You are suggesting that if there is to be any relief or lifting of the burdens in respect of these costs it will have to come from the govern-

ment rather than from C.N.T. in the form of a similar kind of subsidy as applied elsewhere?

Mr. GORDON: I think these services should stand on their own feet. I do not think C.N.T. should be expected to provide subsidized services. If you have a good case and I do not mind saying that perhaps you have in your area under present circumstances, your representations should be made to the government.

Mr. RHÉAUME: Do you feel from the point of view of financing these services that they are on solid ground? I understand essentially these services were provided for defence purposes?

Mr. GORDON: That fact has been taken into account in the economic analysis. We do have some arrangements with the Department of Defence in respect of some of these costs. That department pays for part of the cost.

Mr. RHÉAUME: There is one other comment I should like to make; when the C.N.T. provides service lines to northern communities, which are very vital to those communities, it does so to every one except the non-white population. I have received this complaint from individuals in every northern community. The Indian people do not have access to these services. Generally there has been a filtering out in northern communities of Eskimo and Indian peoples who tend to live in small communities removed from those inhabited by the white citizens. I am wondering whether the C.N.T. has attempted to serve the larger concentrations of population, with a tendency to forget the Eskimo and Indian peoples. I am not suggesting that is the case, but feel that the C.N.T. officials should consider serving also the Indian and Eskimo people.

Mr. GORDON: There certainly is no colour bar in respect to the provision of these facilities. Certainly the question in respect of population density in areas must be considered in respect of justifying the capital expenses involved in providing these services. We cannot undertake to provide a telephone service to an individual located ten miles from the main inhabited area.

Mr. RHÉAUME: I am suggesting that there are single individual installations several miles removed from large established Indian communities, yet the services are run to that single federal government employee but not to the other individuals. I am wondering whether in the assessment of C.N.T. they should perhaps be a little more careful in this respect.

Mr. GORDON: I will take note of your recommendations and discuss them with Mr. White when I next talk to him.

*(Translation)*

Mr. MATTE: If my information is reliable, there were transfers of certain lines of the Canadian National to the Bell Telephone's benefit. Why?

*(Text)*

Mr. GORDON: We are in a competitive position in respect of telecommunications, and in areas where the Bell Telephone Company provides a service people prefer that service to ours; that is the way of business. We are in competition across the country with the Trans-Canada Telephone Association. Are you referring to telephone service only?

Mr. MATTE: I am referring to telephone and telecommunications service.

Mr. VAUGHAN: We are not engaged in the telephone service business.

Mr. MATTE: I am referring to telecommunications service.

Mr. GORDON: We are not engaged in the telephone service business.

Mr. VAUGHAN: We do have a telephone service operation in Newfoundland, the Northwest Territories and the Yukon but in general across Canada we are not engaged in the telephone service business.

Mr. BEAULÉ: We are referring to the telephone business.

Mr. GORDON: The telephone service business is always operated on the basis of a monopoly in a particular area. We have a monopoly in the Northwest Territories and in certain parts of Newfoundland. The telephone business is competitive as such. If you have in mind the fact that we have lost business to the Bell Telephone Company, for instance, in respect of certain radio and television broadcasting services you are absolutely right. That is a competitive situation. Is that what you had in mind? We lost a C.B.C. contract in certain areas a few years ago on the basis of price.

(Translation)

Mr. MATTE: Would the government have transferred from Canadian National to Bell Telephone? Would the government itself have transferred its operations to Bell Telephone rather than to use the Canadian National?

(Text)

Mr. GORDON: An open competitive tender was involved in that respect rather than a decision of the government. In other words, the Canadian Broadcasting Corporation asked the Canadian National Railways to submit a bid in respect of the provision of certain radio broadcasting and television facilities. At the same time it asked the Bell Telephone Company to submit a bid. We had that contract for quite a number of years but lost it in 1960, I believe. We lost that contract in 1960. It was a ten year contract which was lost to the Bell Telephone Company which made a bid on behalf of the Trans-Canada Telephone Association.

(Translation)

Mr. MATTE: But do you, in fact, believe that it would be better to use the Canadian National lines, since Canadian National is a government customer?

(Text)

Mr. GORDON: Well, that is a question of course, on policy. Personally, I do not think the government should require the Canadian Broadcasting Corporation to use Canadian National services. I think it is healthier that it should remain on the basis of competition. I do not believe in that kind of a monopoly.

You see, when you get it on a competitive basis then both sides of the picture are working like the very devil to improve their facilities in such a way as to give the best possible service.

Now, while the Canadian National might be so pure they never would take advantage of this situation if the Canadian Broadcasting Company had been instructed to turn the business over to the Canadian National, there is a reason the Canadian National might not want to spend the money to keep the plant in as good condition as it might otherwise be. Competition is the prod here and I am all for it.

Mr. PASCOE: I am not sure, Mr. Chairman, whether my question applies to the matters under discussion. My question is in respect of a program called Telepoll, which occasionally raises my blood pressure. Was that program financed by the C.N.R. last year and will it be repeated again next year?

Mr. GORDON: That is a program sponsored by the Canadian National and Canadian Pacific which we have had on hand since 1961 for the purpose of selling telecommunication services and making the names and functions of our two companies better known. You say you do not like it?

Mr. PASCOE: Once in awhile it raises my blood pressure.

Mr. GORDON: Then that is very good because so long as you take notice of it it is serving the purpose. We want you to notice it.

Mr. PASCOE: I will not change my mind in respect of it.

Mr. GORDON: We do not care what you say about it so long as you say something. You do look at the program and that is what we want you to do.

Mr. PASCOE: Definitely I do.

Mr. GORDON: Mind you, we do not provide the editorial comment or the editorial content; that is done by them.

Mr. PASCOE: Do you pay Mr. Frith?

Mr. GORDON: That is done by the C.T.V. network themselves. We do not provide the material or the facilities. We sponsor it, you see. This is an advertising effort.

Mr. VAUGHAN: Is it just like General Motors sponsoring something like a musical concert on television; it is the same thing.

Mr. PASCOE: And do I understand it is going to be repeated next year?

Mr. GORDON: We have not taken that decision yet. However, we have been very well satisfied with it and we probably will continue it.

Mr. GRANGER: Mr. Gordon, I would like to say a word of appreciation for the fine work C.N.T. is doing in those areas of central and northern Newfoundland which they serve and I would express the hope the same services will be extended to the whole coast of Labrador.

Mr. GORDON: Thank you very much. You will do me a great favour if you see that the Minister of Transport is informed of your comment.

The CHAIRMAN: Would you proceed, Mr. MacEwan.

Mr. MACEWAN: Do Canadian National telecommunications have any plans during this year, 1964, to combine their offices with Canadian Pacific offices throughout Canada?

Mr. GORDON: Well, it depends which offices you mean.

Mr. MACEWAN: I am thinking of the Atlantic area.

Mr. GORDON: Yes. The general trend will be in that direction in terms where message traffic is handled. Message traffic is on the way out; it is a declining business, I am afraid, and we will as much as we can sensibly combine these offices. The future for the old fashioned telegram is not very good.

Mr. MACEWAN: I am thinking of the Atlantic region mostly.

Mr. GORDON: Yes. We have a number of combined offices now and I think that trend will continue.

The CHAIRMAN: Gentlemen, is this section carried?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: The next section is personnel and labour relations.

Mr. PRITTIE: Mr. Chairman, there is a matter I wanted to bring up. I have here a letter Mr. Gordon sent to Mr. Pickersgill, who supplied a copy to Mr. Knowles, who gave it to me. It is in respect of pensions of retired employees. Do you recall this letter, Mr. Gordon? You said the committee would be a good time to bring this question up. As I say, it has to do with employees who retired prior to April 1, 1962, the amount of their present pensions and the possibility of an increase.

Mr. GORDON: What is your question?

Mr. PRITTIE: What are your proposals in connection with this? Is there anything to be done about the pensions which these people are receiving, which are very low?

Mr. GORDON: No. We have gone over this in very great detail before now and we disagree with the suggestion that those people who are on pension

should have their pensions increased because of improved benefits that may happen after the period in which they have been retired. We disagree with that. That would be giving a concession or privilege to retired Canadian National employees which is not given to anyone else in the country, and we see no justification for that.

Mr. PRITTE: Well, it has been done in some other places. I know of some public bodies that have done this for people who through most of their earning years received very low wages, as a result of which they, in turn, received a low pension. I know of some who have made pension adjustments for their employees. I do not know whether or not it has been done in private enterprise.

Mr. GORDON: Do you mean retroactive adjustments?

Mr. PRITTE: Yes.

Mr. GORDON: I do not know of them.

Mr. PRITTE: I am thinking of the British Columbia municipal employees and the British Columbia teachers who have retired.

Mr. FISHER: And, the Ontario retired teachers.

Mr. GORDON: Well, it is not any part of our policy that retroactive changes should be made for the benefit of persons already retired when we are making a change in our pension fund plan. If we were to do that the cost of such retroactive adjustments would be such that it would militate seriously against our ever being able to recognize current employees in regard to their current requirements. We could not do it.

Mr. PRITTE: I would suggest that for them the problem may not arise because pensions are much better now than they used to be and apparently there will be a national plan of some sort or other in the future. Have specific proposals been made by the retired employees to you and, if so, what has been the nature of these proposals?

Mr. GORDON: Well, I have this comment and I think I had better make it.

The question of retroactivity to persons already retired arises whenever a pension plan change is made which has the effect of improving benefits. If the change is not applied retroactively, it inevitably gives rise to comparisons between the position of members of the pension plan who retired or otherwise left the service before the change was made and those who do so afterwards. The difficulty is that if such a change were to be made retroactive at all there is no past date that could be selected which would not produce the same comparisons. The choice is, therefore, one between making amendments apply only from the date they are made or giving them unlimited retroactive effect. The complexity and cost of following the latter course would be such that if it were obligatory to do so it could only have the result of militating against the adoption of pension plan improvements. This would be an undesirable consequence and C.N. follows the practice of making pension plan improvements applicable only to employees in service when such improvements are made.

That is the statement that I was using myself in regard to our outlook and in regard to retroactive pensions. I think it is likely, however, since you mentioned Mr. Knowles' name, that the basic point was a broader one that you had previously put forward on a number of occasions both with respect to civil service pensions and those of Canadian National, namely, pensions paid to retired personnel should be increased from time to time in line with the cost of living. That has been his main argument in that respect. We disagree with that point of view very definitely.

The difficulties caused for Canadian National pensioners by increases in the cost of living are no different than those faced by other retired persons living on pensions, annuities or other forms of savings producing a fixed income.

As a publicly owned organization whose profits or losses are paid to or by government, the cost of increasing pensions payable to retired Canadian National employees would in effect be borne by the Canadian public at large. It has not been considered that it would be fair or proper that Canadian National pensioners should be granted special assistance from public funds over and above that provided by the government to all retired people by way of the old age pension. The old age pension, payable at age 70, as you know, without a means test has been increased by the government from time to time in recognition of the rises in living cost from the original amount of \$45 per month in 1952 to the present level of \$75 per month.

A Canadian National pensioner who was a contributor to the 1959 pension plan receives a pension based on a percentage of his last or best five years' earnings. His pension, therefore, reflects the wage and price levels existing at the time of his retirement. Upon attaining age 70, normally five years after retiring, his income is supplemented by the amount of the government old age pension, and when his wife reaches age 70 she also becomes entitled to the old age pension. These subsequent additions to the over-all income of a pensioner and his wife will, in most circumstances, compensate for increases in living cost occurring after retirement.

My point there is that one cannot, in our opinion, pick out the Canadian National group as a special class to be given recognition different from that given to other retired people who are faced with the same problem in regard to the rise in the cost of living.

(Translation)

Mr. BEAULÉ: Mr. Gordon, you are no doubt aware that the government of Quebec will, in January 1966, bring the compulsory pension plan into force for all workers in Quebec who have reached the age of 18 up to 70. What is going to happen to Canadian National employees who are presently contributing to the pension plan and who live in Quebec province?

(Text)

Mr. GORDON: Well, I do not know. We cannot tell that until we see the legislation. I have been warned enough about accepting what I read in the papers, and I do not know any more than what I saw when I glanced in the papers this morning. However, I assume there will be an integration between the private pension plan and the government sponsored pension plan, and we will not be able to decide what is necessary there until we have the actual legislation for it.

As a matter of fact, this has been agitating the Canadian National Railway employees a great deal, and we sent out a notice to them. This has reference to the Canada pension plan but has the same connotation, we assume, in regard to the provincial part of it. We said this to our employees:

Reports reaching the pension and welfare plans office indicate that some employees are becoming unnecessarily concerned as to the possible effects of the Canada pension plan on the C.N. pension plans. In the hope that it will relieve the main concerns which have been expressed, the following statement is being made:

1. The C.N. pension plans will not be replaced by the Canada pension plan.
2. Any co-ordination between the Canada pension plan and the C.N. plans will relate only to contributions and benefits in respect of earnings and service after the Canada pension plan comes into force. It will not affect pension benefits which have accrued to employees under the Canadian National plan up to that time.

3. The combined benefits which an employee will receive under the Canada pension plan and the C.N. pension plan will be at least as large as the benefits provided at present under the C.N. pension plan.
4. The C.N. pension trust funds will continue to be held and administered by the Canadian National Railways company in trust for Canadian National employees and pensioners for the purpose of providing present and future pension benefits in accordance with the rules of C.N. pension plans.

So what we said there in regard to the Canada pension plan itself, I think, as far as I can see from what the papers have said, will have the same general effect in regard to the Quebec plan.

*(Translation)*

Mr. BEAULÉ: About a fortnight ago, because Mr. Lesage gave the broad lines of the pension plan on television and stated that all those working and living in Quebec will be subject to the pension plan except those persons attached to embassies and to international corporations. Such employees only will be exempt from the plan but all other employees will be subject to the compulsory pension plan. The Premier himself gave this as his opinion on television about two weeks ago.

*(Text)*

Mr. GORDON: There have been no discussions with us in regard to how it is going to be worked out and with particular reference to the position of crown companies on this particular legislation. We cannot do anything about it until we find out what the policy is going to be in that respect and until we see the actual legislation.

*(Translation)*

Mr. MATTE: Mr. Gordon, after meeting several Canadian National employees, I believe that the CN would pay moving expenses in the event of an employee being transferred; precisely because of local instability for many employees, due to seniority probably. It would seem that those who occupy the top positions do not object, but the ordinary worker who has most need of this privilege of removal privileges when needed can not profit by it. What do you think of this?

*(Text)*

Mr. GORDON: The matter of dislocation costs is another matter that is apparently examined in terms of possible legislation changes which were proposed, I think, in Mr. Fisher's bill; and since then I think the Minister of Transport made some reference to it this morning. But we do have a policy that does recognize types of moving expenses which we do pay. Can you add to what I have said, Mr. Vaughan?

Mr. VAUGHAN: It normally happens that the employee and his family are given transportation orders to go from A to B. Similarly, they receive what we call a free freight order to move their household goods from one point to the other. The company does endeavour to make the move as pleasant and easy as possible. That, briefly, is about the extent of it.

*(Translation)*

Mr. MATTE: But is there any difference between the senior official who would be moved and the simple worker? We often hear criticism in this respect from the people . . .

*(Text)*

Mr. GORDON: I do not think that is a valid criticism. The senior official in the first place, as part of his development in the company moves much

more frequently. We do not compensate the senior official for all the expenses to which he is put. Mr. Demcoe, I guess, has done about as much moving as most people around, and every time he has moved it has cost him money; you can be sure of that—and he has made that known more than once. Nevertheless, it is part of the penalty of advancing in the service, so to speak. We pay part of the moving expenses on pretty much the same basis as Mr. Vaughan has outlined, but there is no special compensation to the senior officials in regard to dislocation of the type you mention.

(Translation)

Mr. MATTE: Now, Mr. Gordon, I have another question. What do you feel about employees who have to contribute to two unions?

(Text)

Mr. GORDON: I do not think I should comment on the relations between unions and employees; that is a matter between themselves.

Mr. HORNER (*Acadia*): On a point of order, what is the view of the committee with regard to continuing? It is now half past ten. We started at ten o'clock this morning. Surely we can shut it down now. We agreed to take in an extra half hour this evening and to sit from 7.30 to 10. We started this afternoon at 3:30 and we went on until 6 o'clock. Surely we still have quite a bit of work to be done with regard to outlook, board of directors, personnel and labour relations. I think that we should adjourn now and come back tomorrow morning at 9:30 and whip it through before noon tomorrow.

The CHAIRMAN: I am quite in agreement with you, Mr. Horner. All we are trying to do is to finish with labour relations if we can.

Mr. HORNER (*Acadia*): If we are going to adjourn, let us adjourn now.

Mr. FISHER: Let us finish it. It was agreed by Mr. Pascoe and the rest that we can finish this today.

Mr. HORNER (*Acadia*): What is the use of sitting ten more minutes if we can finish it tomorrow?

The CHAIRMAN: Could we not finish with labour relations tonight?

Mr. HORNER (*Acadia*): I have a lot of points on it. I think we should adjourn now and come back tomorrow at 10 o'clock.

The CHAIRMAN: It is up to the committee. Do you want to adjourn now?

Mr. HORNER (*Acadia*): I will so move.

The CHAIRMAN: Is it seconded?

Mr. BEAULÉ: The house sits at 11 o'clock tomorrow.

Mr. HORNER (*Acadia*): We can come back at 9:30.

Mr. PASCOE: We are meeting at 9:30 tomorrow anyway.

Mr. FISHER: Why not finish this section today?

Mr. PASCOE: I can finish my points in two minutes.

Mr. HORNER (*Acadia*): I cannot finish mine in two minutes.

Mr. FISHER: Oh, go on.

The CHAIRMAN: Does anybody second Mr. Horner's motion?

Mr. HORNER (*Acadia*): I moved the motion and Mr. Pascoe seconded it.

Mr. PASCOE: I did not second it. I can finish my part very quickly.

The CHAIRMAN: There is no seconder to the motion; it is lost.

Gentlemen, there is no quorum. The meeting is adjourned.

FRIDAY, June 19, 1964.

(Text)

The CHAIRMAN: Order. Gentlemen, the feeling indicated last night was that we might strive to finish before eleven o'clock this morning. I know that I shall have your co-operation. In any event we shall proceed with Mr. Pascoe and then Mr. Prittie who asked for the floor just before closing last night.

Mr. PRITTIE: No, I did not.

The CHAIRMAN: Very well then. Mr. Pascoe.

Mr. PASCOE: Under this item of personnel and labour relations I have one matter to bring to the attention of Mr. Gordon for possible comment. It concerns proposed amendments to the Canadian National Railways pension plan. I have letters here from constituents asking me to discuss this proposal at this committee. Perhaps I can best do so by outlining the main point of the letter which has to do with earlier retirement from the railway service through pension changes. There are two suggested changes in the pension plan. I am sure Mr. Gordon has received all these proposals, and I shall not elaborate. But let me read from the letter:

I would, therefore, appreciate your earnest consideration of the following revisions to the Canadian National Railways pension plan.

- (1) Revision of Rule 7(1) to allow for: 1½ per cent for each year of allowable service.
- (2) That Rule 7(2) be amended to permit of the following:  
A contributor may elect to retire at age 60, or any age thereafter where the employee's age and years of service total 85, with no reduction in pension, i.e., full allowance for all time worked.

I promised these constituents who wrote to me that I would bring the matter up before the committee. Perhaps Mr. Gordon might care to comment on it at this time.

Mr. GORDON: My general comment is that this letter is a representation to the effect that the benefits of our pension plan should be increased. It raises the whole question of whether or not our pension plan is adequate, all things being considered. We have made a number of analyses in that connection and we believe that our pension benefits are in line with benefits which are made available by other large companies, particularly by our competitors, and that we are, so to speak, performing at a good normal level. We have a good pension fund, and we do not believe that representations to the effect that it should be increased in the matter of benefits are justified, all things considered. As to these letters you refer to, remember that we have a pension fund committee on which there are labour members. The men are represented on that board. These discussions took place some time ago. The general opinion is that our pension plan is adequate.

Mr. PASCOE: I may assure these members then that their proposal has been looked at?

Mr. GORDON: Yes, definitely. If you wish to send the letter to me, I will reply and tell you so.

The CHAIRMAN: Mr. Lamb?

Mr. LAMB: I have no questions.

The CHAIRMAN: Are there any further questions on labour?

Mr. COWAN: I would like to bring up a specific matter. I did not like a newspaper story from Toronto that the Canadian National Railways laid off a man from employment after he had been satisfactory for four years. The

newspaper said it was done because he had been in a penitentiary as a convict. We have to hire convicts because they have to make a living and keep their families. May I ask if there is any truth in that report? I do not want you to be too specific about the matter, and if necessary I will step aside.

Mr. GORDON: I would suggest that it is not in the interest of the individual concerned to get into a detailed discussion about this particular situation. We do not have a general rule that we do not employ people who have been found guilty of a criminal offence. We have rehabilitated people of that kind in various ways. But there are many considerations that need to be carefully looked into. Let me say to you: Do not believe the newspaper story as being 100 per cent correct.

Mr. COWAN: With great regret as a newspaperman I would like to hope that your reply will be wide-spread.

Mr. GORDON: I do not think it would benefit the individual if we should go into details.

Mr. COWAN: I accept your statement.

The CHAIRMAN: Do personnel and labour relations carry?

Carried.

Before we go ahead, I feel obligated to say a word. Last night Mr. Cowan asked me if he might ask one question on telecommunications although that heading has been passed. Does the committee agree?

Agreed.

Mr. COWAN: Thank you. I had to be in the house last night and I could not stay for the last ten minutes of the committee meeting. However, there are some questions I would like to ask under telecommunications. I notice that the first paragraph of your report points out that your revenues from telegrams and broadcasting facilities were lower. Would the president care to comment on that point? Or would he rather have me ask questions on why the revenues for broadcasting facilities were lower? I am referring to page 12.

Mr. GORDON: Yes. Revenues from telegrams were lower because, as I said last night, the telegram business is on its way out. The business has lost its appeal to the public, in the form of telegrams, and it is in my opinion likely to continue to decline. I do not say that it will be cut off in the next few years, but it is certainly a declining business. This is happening to the telegram business all across the continent. The same is true in the United States.

On the question of broadcasting facilities, it is a matter of timing, I suppose. I was looking at the timing impact of it. As I said last night, the railways lost a C.B.C. contract, one that they had held for quite a number of years. When tenders were called for a ten year contract, the Bell Telephone Company on behalf of the Trans-Canada Telephone Association got the contract on the basis of price.

Mr. COWAN: I understand that the Canadian Pacific and the Canadian National Railways have been carrying these radio programs to the 195 stations for thirty years.

Mr. GORDON: That is right.

Mr. COWAN: After thirty years experience, would not the Canadian Pacific and the Canadian National Railways be pretty well aware of what their costs of operations are in that field?

Mr. GORDON: They are.

Mr. COWAN: If the Bell Telephone Company was able to undercut you in their tender by 25 per cent—which I understand was the figure—would you say that the original figures all together were too high, or would you say that

Bell Telephone was tendering at a loss in order to get the business away from the Canadian Pacific and the Canadian National?

Mr. GORDON: I cannot answer specifically about the Bell Telephone Company. I do not know. I do not know how the company does it. But we feel that we put in a good commercial bid, and that if we had gone much lower, we would have lost money. There is a factor of course in the picture which may or may not be cost. I am not giving evidence on this. I merely mention it. I say that the Bell Telephone Company have an advantage in connection with long distance telephones. They could, in their costing system, decide to load on part of the cost to the long distance, on that basis. Perhaps I had better stop there because I do not know. It is a matter of how they have done their costing. All I can say is that the railways have a good costing system, and that we quoted the best price we could.

Mr. COWAN: Do you know any way by which the company could do its costing on a tender basis if it does not get a tender price from the subcontractors first? I understand that in the loss of this business the Canadian National Railways gave the only available service for Newfoundland and the Yukon territories, and that they were sold by the Bell Telephone Company before the Bell Telephone Company was awarded the contract. How could you quote a price if you did not ask your subcontractors what their price would be first?

Mr. GORDON: I do not know.

Mr. COWAN: That is my question, too.

Mr. GORDON: You are trying to establish how the Bell Telephone Company could quote for business on a basis which we think is not economic. My answer is that I do not know.

Mr. COWAN: I note your comments about long distance radio, and I would like to quote from a joint letter signed by Mr. Emerson on behalf of Mr. Crump, and also signed by you, under the date of August 30, 1961. It reads as follows:

Assuming that it is in the national interest to maintain competition in the communications industry, we think you will agree that such competition cannot be preserved if one group is permitted to quote depressed rates in the competitive situation and to obtain recompense through higher rates for other services.

Public long distance telephone rates in Canada are 50 per cent or more above comparable rates in the United States which are regulated by the federal communication commission,

Did you receive any reply to that letter from the former minister of transport in the previous administration?

Mr. GORDON: In all likelihood, but I cannot say so specifically without looking at my file. My recollection is that it was acknowledged, and that is all.

Mr. COWAN: You mean it was acknowledged; that your letter has been received, and it will be filed and forgotten. You mean that?

Mr. GORDON: I did not say that.

Mr. COWAN: Some years ago I had the pleasure of working with Mr. Davidson Dunton, when we brought to Toronto a television program of the world's heavyweight championship club from Detroit by way of the Canadian Pacific and the Canadian National from Detroit to Toronto, when we already had a service established between London and Hamilton to pick it up. In how many places in Canada are television programs brought into the country from the United States?

Mr. GORDON: I would have to check it, I cannot remember offhand.

Mr. COWAN: Do you bring in programs from Detroit to London and Hamilton for the Canadian network now?

Mr. GORDON: I am not sure. I would have to ask my officers.

Mr. COWAN: It can be done, and I understand there is a line in existence between Buffalo and Toronto for the connection.

Mr. GORDON: I do not know if there is anything to prevent the system from picking up programs between Boston and Saint John, or between Burlington and Montreal if there were co-operation by the radio and television interests. As far as I know on the technical side it could be done. But I would want to talk to my officials about the policy side.

Mr. COWAN: When the C.B.C. was calling for tenders for the 195 radio stations, why did they not call for tenders station by station, rather than only for an over-all national contract?

Mr. GORDON: That would be C.B.C. business. They have to decide what they want us to work out in order to respond to their requests.

Mr. FISHER: What are we talking about?

Mr. COWAN: We are talking about the 195 radio stations in particular. May I ask if this is the first time the C.B.C. has ever tried to save money, or if there have been other instances?

The CHAIRMAN: Order.

Mr. COWAN: I have just one other question.

Mr. GORDON: I would like to make one comment for the record: I am not running the C.B.C., and I do not intend to.

Mr. COWAN: I have just one more question. I regret that I have had to attend many times in the house when questions were dealt with here, and this subject may already have been dealt with. But I gather from the newspapers and my friends on the committee that you are concerned that if the Canadian National Railways is not recapitalized and continues to show recurring deficits the morale of the executives and personnel may drop. Is that right?

Mr. GORDON: Yes, very much so.

Mr. COWAN: I wondered if you were worried about other costs, because when the C.B.C. suffered its biggest loss in history, at that very time they doubled the salary of the manager. Do you expect to receive the same treatment?

The CHAIRMAN: Order, order. I think we are getting away from telecommunications. We have just carried personnel and labour relations.

Mr. FISHER: I have a supplementary question.

Mr. GRÉGOIRE: Before we go on to "outlook" I would like to say this.

(Translation)

I would like to ask you a question concerning—because it is mentioned in this chapter—the recapitalization of the Canadian National.

(Text)

Mr. RHÉAUME: I have to object on a point of order because we have already carried the sections right up to "Outlook". Are we going to reopen them?

The CHAIRMAN: No, I do not intend to permit it. We are now on "Outlook". Is that what you want to speak on, Mr. Grégoire?

(Translation)

Mr. GRÉGOIRE: No, Mr. Chairman. Before we examine the Outlook . . .

(Text)

Mr. PRITTIE: Mr. Grégoire may ask his question under "Outlook", if he wishes.

(Translation)

Mr. GRÉGOIRE: No. On a question of privilege, Mr. Chairman. You will see what I mean if I may be allowed to speak for one moment. In the chapter concerning the Outlook, the recapitalization of the Canadian National is mentioned. Before I speak about this matter, I would like to know if we may discuss it. May we talk about the issue of recapitalization, or shall we discuss it at a later date in this committee? If it is to be discussed in this chapter, I would request the calling, at the proper time, of other witnesses who are willing to discuss the recapitalization of the Canadian National. If this problem is not to be dealt with by the committee this morning, I believe that it would be useless to call witnesses on this matter. If it is not discussed, there is no problem.

The CHAIRMAN: Mr. Grégoire, I must tell you that it was agreed to discuss only the reports of the Canadian National and not the problem of recapitalization. We will hear no witnesses during the discussion of the annual report of the Canadian National.

Mr. GRÉGOIRE: Then, may I ask a supplementary question, Mr. Chairman? I probably can ask the minister of Transport about this problem concerning the recapitalization of the Canadian National. Will it be referred to the Standing Committee on Railways and Canals during the current session?

(Translation)

Mr. PICKERSGILL: I can only give a qualified answer because I am not parliament, but so far as I am concerned, if I am able to get legislation before parliament, I propose when it gets second reading to ask that it be referred to this committee.

Mr. GRÉGOIRE: Then, if I understand the answer of the Minister of Transport, the recapitalization of the Canadian National will not be effected before it is studied by this committee?

Mr. PICKERSGILL: Yes. This is understood.

Mr. GRÉGOIRE: Agreed.

At that stage, will we have the time and occasion to hear the witnesses we wish to question on this matter?

Mr. PICKERSGILL: It is for the committee to decide on this matter, but I think so.

(Text)

Mr. FISHER: We would not move on recapitalization without hearing from Bob Thompson.

Mr. GRÉGOIRE: I beg your pardon?

Mr. FISHER: We would not move without hearing from Bob Thompson on recapitalization.

The CHAIRMAN: Order. We will now move to a consideration of the item entitled "Outlook". Mr. Fisher and then Mr. Grégoire will have the floor.

Mr. FISHER: The only question I have in respect of "Outlook" really relates to the prospective settlement of the nonoperating employees' demands. The one thing I am concerned about, Mr. Gordon, in coming weeks, in respect of which there is some worth-while apprehension in view of the last settlement, is the very large sums of moneys that will start flowing around as a package, which is the amount the railways will have to supply in order to meet the demands. I am wondering whether you can tell me anything about the prospects as you see them of meeting either the conciliation board report or a lesser settlement in financial terms?

Mr. GORDON: Yes. The current situation is that the conciliation board has brought in a majority award. That is, two members of the board, the chairman

and Mr. David Lewis, have joined in what is referred to as a majority award. We have been notified through the Minister of Labour that the unions have accepted that majority award. The effect of the majority award would put a cost upon the railways of about \$57 million over the period of the contract.

Mr. FISHER: The period of the contract is three years, is it?

Mr. GORDON: No, the period of the contract is two years. The fact is that the railways have not yet indicated their views in regard to either accepting or rejecting the award. That is a matter which is very currently before me and Mr. Crump, as of now. I hope to have a meeting with him as quickly as possible to see whether we can determine or arrive at any conclusion in respect of how to face these enormous demands upon us in light of the fact that our freight rates are frozen and various other things are almost in a state of impasse. Therefore, this is at a stage in respect of which I cannot make any positive assertion of what our reaction will be. In fact, as of now we are obliged to answer whether or not we will accept their award.

Mr. FISHER: Is there any relationship between pending legislation, and I have in mind the MacPherson commission legislation, and your attitude or capacity to determine an answer?

Mr. GORDON: Yes, there is a direct relationship because, as you know by reason of the various freezes and the delay—I suppose I might as well say delay although I do not mean that critically, but the fact is that the recommendations of the commission have not yet reached the point of legislation—there have been interim payments made to the railways covering a sum of \$50 million that is divided between the railways pending the implementation of the MacPherson commission recommendations. As of now, we just do not know where we stand. We have to get together to see whether we can see a course ahead of us.

Mr. FISHER: My last question relates to the outlook of your pension situation particularly with regard to the acknowledged liability. Is there any possibility of that acknowledged liability being affected by the change in the pension arrangements created either by the Canada pension plan or the Quebec plan?

Mr. GORDON: I do not think so, but again I have to wait until we have studied the actual legislation. At the moment I do not see that the acknowledged liability would be affected unless in some way or another our commitments in regard to pensions are increased. My understanding is that that is not the case. Again I say our experts will have to study the actual legislation. We have not got the actual legislation yet.

The CHAIRMAN: Mr. Horner?

Mr. HORNER (*Acadia*): Mr. Chairman, I think perhaps you were surprised when I agreed to pass the item on personnel and labour relations so quickly this morning, whereas I objected to it last night. This is evidence that I am in a co-operative mood.

The CHAIRMAN: I always thought you were the most co-operative man I had seen.

Mr. HORNER (*Acadia*): Under the item entitled "Outlook" I am trying to envisage what the C.N.R. has in mind exactly in respect of future grain movement in the west. Is it correct Mr. Gordon that on the prairies there are something like 8,000 miles of railroad? Is that a reasonably rough estimate?

Mr. GORDON: Are you referring to the entire prairie regions?

Mr. HORNER (*Acadia*): I am referring to the prairie regions.

Mr. GORDON: Have we got the mileage there? Which area do you mean by the prairie area?

Mr. HORNER (*Acadia*): I am referring to Manitoba, Alberta and Saskatchewan.

Mr. GORDON: Do you have both railways in mind?

Mr. HORNER (*Acadia*): I am referring only to the C.N.R. I would not want to question you about the C.P.R.

Mr. GORDON: I can give you this on our route miles operation. Manitoba has 3,101.55, Saskatchewan has 4,341.38 and Alberta has 2,238.62. That totals about 9,600 miles.

Mr. HORNER (*Acadia*): In your plan of appraisal of the situation you are applying to the board of transport commissioners for permission to abandon approximately 2,500 miles of that track, or something in that neighbourhood, in the same three provinces?

Mr. GORDON: There is a table, which I had yesterday, showing the actual filing by mileage.

Mr. DEMCOE: This is the one here.

Mr. GORDON: The actual applications filed with the board of transport as at this moment show 84 applications totalling 3,360 miles of which 2,964 miles are in the prairie and mountain regions.

Mr. HORNER (*Acadia*): Was the figure 2,900?

Mr. GORDON: The figure is 2,964 miles of track in the prairie and mountain regions. Those are applications that have actually been filed up to date.

Mr. HORNER (*Acadia*): Just for the committee records, Mr. Gordon, would a comparison in respect of C.P.R. applications be roughly the same. I realize the C.P.R. has less track but do you feel it is their desire to abandon nearly one third of their track mileage in the prairies as well?

Mr. GORDON: I cannot answer for the C.P.R., but I do not think so. They have not got as many thin-density traffic lines as we have in that respect.

Mr. HORNER (*Acadia*): Even before you used that expression I intended to ask this question before I concluded. Can you give the committee some idea what you mean by a thin-density line?

Mr. GORDON: A thin-density line is not necessarily a candidate for abandonment.

Mr. HORNER (*Acadia*): I realize that.

Mr. GORDON: I do not know any better way of describing it than just by that expression. It describes itself. It is a line that does not have the volume of traffic that is needed to make a return on an economic basis.

Mr. HORNER (*Acadia*): You have not got a figure in respect of ton miles or anything like that which you hang on.

Mr. GORDON: No. We have said this before, that we do not work on rule of thumb methods, we work with a specific analysis.

Mr. HORNER (*Acadia*): I wonder whether you could determine what you mean by "thin-density line"? I thought perhaps you might have a detailed explanation. I know the decisions you arrive at are quite detailed from time to time.

In respect of the proposed abandonment of one third of your trackage in the prairie regions, do you see any loss of business? Let us assume for example you are going to abandon a line that is 50 or 60 miles long and a person who is living about 50 or 60 miles may well be within 40 miles of the C.P.R. line.

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): That man would then haul to the C.P.R. Do you envisage any real loss of business because of abandonment?

Mr. GORDON: That has been taken into account in our analysis.

Mr. HORNER (*Acadia*): Can you give me a figure in this regard?

Mr. GORDON: No. Each application, as I showed you in the form I tabled with the committee here, constitutes a careful analysis of all the factors that would be involved in the abandonment of a particular line, and we take account of any implication of the character you mentioned.

Mr. HORNER (*Acadia*): What I am getting at is this. Over the years—and, correct me if I am wrong; you see, I use generalities because I am not in possession of all the detailed information in respect of the operation of a railroad—the Canadian Pacific railway has handled about two thirds of the grain crop and the C.N. one third. At least, this is the figure I have in mind.

Mr. GORDON: As a matter of fact, that is a popular illusion in respect of the division of grain. The figure you mentioned is based in respect of western Canada only and the sort of normal ports; but, if you include the carrying of grain through Churchill and so forth—and Mr. Demcoe may recollect what we handled—we handled more grain than the Canadian Pacific railway last year.

Mr. DEMCOE: That is correct.

Mr. HORNER (*Acadia*): I am pleased to hear this.

Mr. GORDON: Yes. We handled more grain physically than they did.

Mr. HORNER (*Acadia*): And, this is including Churchill?

Mr. GORDON: Yes.

Have you the figures for that, Mr. Demcoe?

Mr. DEMCOE: We handled 127,156 cars loaded at country elevators last year in comparison to 124,513 handled by the Canadian Pacific.

Mr. HORNER (*Acadia*): All right; that is a 50-50 break.

Mr. DEMCOE: Actually, it was the first year we were ahead of them.

Mr. HORNER (*Acadia*): This is the first year.

Mr. DEMCOE: Yes. The previous year we were a couple of thousand behind them.

Mr. HORNER (*Acadia*): And, it used to be on a 60-40 basis.

Mr. GORDON: No. Mr. Demcoe said it was roughly 50 per cent last year and the year before as well; this is the first year we are ahead of them. But, in the previous years we usually were 2,000 or 3,000 cars behind them.

Mr. HORNER (*Acadia*): This would be the crop year we are speaking of.

Mr. GORDON: Yes, the crop year.

Mr. DEMCOE: Yes.

Mr. HORNER (*Acadia*): In your study or analysis in wishing to abandon nearly one third of your trackage in the three prairie provinces what percentage of loss of business in grain handled do you see moving toward the Canadian Pacific rather than your own line. Surely you have taken a look at this.

Mr. GORDON: I have not the over-all figure before me but I suppose we can get it if we took all these applications and added them up. But, I do not have that information available for you this morning.

Mr. DEMCOE: We have not made that type of analysis actually. Our research and development department may have it. However, I think probably it would be a 50-50 break. The farmers would haul a certain amount of grain to our lines as well as to the Canadian Pacific lines and any lines that they would abandon we probably would get a 50 per cent break as well.

Mr. HORNER (*Acadia*): Yes, but your assumption is in error for this reason; the Canadian Pacific are not going to abandon as many lines; they have not as many branch lines to abandon and because you are doing the abandoning you

are going to leave many farmers and farm organizations far closer to Canadian Pacific tracks than is the case at the present time. I suspect there would be a loss of, say, 10 per cent perhaps.

Mr. DEMCOE: It may be.

Mr. HORNER (*Acadia*): You have not made any analysis in this respect?

Mr. DEMCOE: Our research and development department may have but we in operations have not.

Mr. HORNER (*Acadia*): Do you not think you should make such an analysis before you so readily abandon one third of your trackage?

Mr. GORDON: I have said on several occasions in respect of this whole matter of the abandonment of branch lines—and you can rest assured we have made a study in connection with every particular point that is relative to that question and these applications—that they are going to be gone into not only by the board of transport commissioners but there is also a provision here for legislation to establish a branch line rationalization authority and a branch line rationalization fund to be continued for 15 years to assist in the establishment of an orderly program for the improvement and efficiency of railway branch lines. Each one of these applications will be dealt with by these specific boards which will be set up, and any person who has any interest in it will be given an opportunity to be fully heard.

I would suggest that it is better to leave the question to that kind of an examination than to try and deal with it in this committee in the form of generalizations. I did not come here prepared to deal specifically with the branch line abandonment program because it is going to be dealt with in detail by special boards appointed for that purpose and at that time we will have expert witnesses who will give all the particulars that you possibly could dream up, and that is saying a lot.

Mr. HORNER (*Acadia*): It sure is.

Mr. GORDON: I am suggesting in the interests of time that we are not getting very far in this discussion because we are not prepared for it. It may look to you that we have not these particulars. I am quite sure we have. They are available and will be available at the proper time when this is before the special investigating boards which have been set up for that purpose.

Mr. HORNER (*Acadia*): I agree.

Mr. GORDON: I myself am not sure but perhaps the minister could tell us whether or not this question in western Canada has been entrusted to the Minister of Agriculture.

Hon. J. W. PICKERSGILL (*Minister of Transport*): If I may say a word about this, Mr. Chairman, the government, as the order paper indicates, is anxious to get on with the legislation based on the MacPherson report and it simply has to take a reasonable place in the queue. It is going to be brought on this year, if parliament will permit it.

Mr. HORNER (*Acadia*): Bring it on next week.

Mr. PICKERSGILL: I do not want to leave any doubt in your minds whatsoever about that.

Mr. HORNER (*Acadia*): Then bring it in next Monday.

Mr. PICKERSGILL: After parliament has been able to dispose of other matters the government, so long as it is the government, has the right to decide which legislation is more urgent, and when it will bring it on. When it is brought on we intend to go through with it, if parliament is willing to accept it. We do not intend to permit in any short period anything like 2,900 miles of railroad to be abandoned in the prairies.

Mr. HORNER (*Acadia*): You say in any short period. What do you mean by that?

Mr. PICKERSGILL: Well, in less than 15 years because, that is specified.

Mr. HORNER (*Acadia*): Fifteen years is a short time in a country's lifetime.

Mr. PICKERSGILL: I know I am only a guest here and perhaps I am not to be allowed to continue what I am saying without interruption, but it would be easier for me to complete my statement, if I could. I say we are asking parliament to provide a considerable sum of money, and I do not expect very much of that to be spent anywhere except in the prairies. There may be a little elsewhere but, as I said, I do not expect very much to be spent anywhere except in the prairies for the express purpose of keeping branch lines going which, on a balance sheet basis, would be closed by a business just looking at its balance sheet. The purpose of this is to make sure that there is no real hardship and no real economic loss to the farmers, and not social loss to those communities.

Mr. GRÉGOIRE: That is not what you have done in the province of Quebec where you have abandoned lines.

Mr. PICKERSGILL: But I think this really is hard on Mr. Gordon, because it is not primarily his business but the business of the government. Mr. Gordon and the Canadian National have agreed not to proceed with any abandonments on the prairies at all until this legislation has been passed and, as I said, it is very hard for him because he does not know what is in the bill. I do but he does not.

Mr. HORNER (*Acadia*): Bring it in and let us have a look at it on Monday; it is the most urgent problem on the legislation.

Mr. PICKERSGILL: It is an urgent problem. If you could persuade your friends to get on with the business that is now engaging the attention of parliament there will be no delay in bringing this up.

Mr. RHÉAUME: Mr. Chairman, on a point of order, this committee does not have to take gratuitous lectures from our guest and if the government chooses to debate the flag issue before the railway legislation, which the minister said yesterday they intend to do, he cannot come to this committee as a guest and say parliament is holding it up. It is the government that is holding it up.

The CHAIRMAN: Order, gentlemen. I think an awful lot of gratuitous statements are being made here. That matter has been raised a couple of times already and I wish we could get along with the questioning in respect of outlook.

Mr. HORNER (*Acadia*): I would like to continue, Mr. Chairman. My question will continue along lines of the future outlook of the Canadian National in respect of grain movement on the prairies. Because we have been given prior information on this subject before by Mr. Gordon himself, I am aware he is not going to be chairman of the Canadian National for too many more years. I am not saying this in any derogatory sense, as this is his own admission and the government's admission, and everyone is agreed he will step down sometime. But, he has outlined and stated quite clearly to this committee that his Winnipeg speech is a well edited speech and contains the best thinking of Canadian National management generally.

Mr. FISHER: On a point of order, Mr. Chairman, this speech has been on the record for almost two years now. It has been debated in the House of Commons on several occasions; I know I brought it up twice. It was before this committee last year. Now, there is a rule in respect of repetition. This is a general rule in so far as the proceedings of either the house or its committees are concerned.

I would like to suggest to you, Mr. Chairman, that there is a very strong element of repetition in this, as I have said. After all, if we have had something that has been debated in the house and has been before this committee in previous years I think that should be sufficient. But, we are now getting it again at Mr. Horner's insistence. I think we can go a little bit too far in

this connection. I would like to suggest that Mr. Horner has had a tremendous latitude in this committee in respect of putting questions on branch line abandonments. He has brought this question up on every occasion that it has been possible for him to do so.

Mr. Chairman, I would like you to give very serious consideration to my suggestion. We are getting close to 11 o'clock.

Mr. HORNER (*Acadia*): I did not interfere when you were putting questions.

Mr. FISHER: Mr. Chairman, I was just wondering if there was any possibility of cutting off this line of questioning.

Mr. HORNER (*Acadia*): You believe in closure, do you?

Mr. FISHER: Yes, I believe in closure. I never have been against it.

Mr. HORNER (*Acadia*): Many a time I could exercise it against you.

Mr. GRÉGOIRE: On a point of order, Mr. Chairman.

(*Translation*)

I think we should remember that the committee which is now sitting is not the same committee which sat during the past years. Therefore, if a member wishes to ask questions which have already been asked before another committee, that is not being repetitious, but new questions asked before a new committee. That is why I believe that the kind of questions asked by—

(*Text*)

Mr. HORNER (*Acadia*): I do not know what you are saying; they have not given me a wire to listen to.

Mr. GRÉGOIRE: If you would listen, I am giving you the right to ask those questions. You should listen to your earphone. When you speak I listen with my earphone.

Mr. HORNER (*Acadia*): But I have not one.

The CHAIRMAN: Order, gentlemen. I am sure Mr. Horner realizes that we are limited in time if we are going to finish this morning. Personally, I do not care. But, in any event, I am sure he realizes that. That is why I have allowed the questioning to proceed. I felt he realized the limitation of time.

Mr. HORNER (*Acadia*): This is exactly what I said at the opening of the hearing this morning. I said I would waive my questions on personnel and labour relations because I wanted to ask some questions on the outlook. It is my wish to be finished at 11 o'clock. We have harangued at some length now and Mr. Fisher and company have tried to bring closure on me for the last 10 minutes.

Mr. BEAULÉ: Which company?

Mr. HORNER (*Acadia*): Not your company; you are good company.

Mr. GRÉGOIRE: Which company?

The CHAIRMAN: Let us get ahead with the questions.

Mr. PICKERSGILL: I wonder if Mr. Horner would permit me to utter two sentences which I think might help all of us. I have given an undertaking on behalf of the government, so long as the present government is in office, that there will be no abandonment on the prairies of these branch lines until the legislation which is now before the house has been disposed of. And that legislation, in turn, will be sent, if the house agrees, to this committee for consideration. At that time we will know what the intention of the government is as well as the intention of the Canadian National Railways, and at that time we will be able to discuss the matter in the light of that knowledge. I am just giving this undertaking because I think it might be helpful.

Mr. HORNER (*Acadia*): I appreciate it very much. Then this committee would be able to call all interested parties?

Mr. PICKERSGILL: Certainly all interested parties.

Mr. HORNER (*Acadia*): I thank you for this, because the question has caused some anxiety. I have two or three more questions if the committee will permit me to ask them.

The CHAIRMAN: Please continue.

Mr. HORNER (*Acadia*): In your Winnipeg speech you suggested that some other system of transportation would have to be evolved between the farmer and the main line elevators. Do you envisage that the elevator companies and the farmer may buy those 60 to 70 mile rail lines and operate shunting car system with medium sized diesels, or with farm tractors running on the rails? Has this entered into your future outlook at all?

Mr. GORDON: I have nothing more to add to my Winnipeg speech. That speech was not intended to, nor did it, make any specific proposals. I simply said that I was making some suggestions on the whole matter. I said that grain movement should be examined by all interested parties so that all the factors involved in the question might be considered. I said that out of a properly co-ordinated discussion a better system might emerge. I said that by taking advantage of new technologies and new ideas, it would help the grain movement in this country, and would benefit the western farmer.

I did not indicate, and I did not make specific suggestions at all. I am not going to try to spell out a particular phase of it in terms of the railways only, because the railways are only one part of this whole question. The theme of my speech was that in order to deal with it intelligently, there ought to be co-ordinated means of discussing all the elements. That is the whole point of the speech.

Mr. HORNER (*Acadia*): I agree that this is the main theme of your speech, but I have asked you a question. Do you envisage the sale or the leasing of 60 to 70 miles of track which might otherwise become abandoned and which would ultimately be sold for salvage?

Mr. GORDON: I do not know. I could not answer that question at all because it could not be dealt with until it was part of the over-all plan.

Mr. HORNER (*Acadia*): In your outlook on the grain movement in operation you envisage the integration of trucking systems. I ask you to take a look at shunting cars and moving them out to the main line. Would this be feasible?

Mr. GORDON: I do not know.

Mr. HORNER (*Acadia*): Would you consider it permissive in good railway management?

Mr. GORDON: I am not going to express a view until the whole question has been studied along the lines I have mentioned. It is no use to pick an individual section of it, because we would just get confused.

Mr. HORNER (*Acadia*): I see that Mr. Fisher has succeeded in "clamming up" the witness with his oration. But I would stress that this is a matter of vital importance on the prairies, where every farmer and elevator company are concerned. You are going to hear a lot more about wheat and rail line abandonment down here as well as elsewhere, and I do not care how many times it is repeated. Now, have you any idea of what you consider to be the maximum elevator size for this grain movement?

Mr. GORDON: I am not an expert in the matter of the sizes of elevators.

Mr. HORNER (*Acadia*): But you said the elevators were too small.

Mr. GORDON: I said that is typical of the kind of question that should be looked into.

Mr. HORNER (*Acadia*): You said that the elevators were too small now to permit low cost operation. What would you say should be the maximum size of an elevator?

Mr. GORDON: I do not know.

Mr. HORNER (*Acadia*): I think this is a very pertinent question. Only two weeks ago I attended the opening ceremony at a brand new elevator, and it was not a particularly big elevator.

Mr. GORDON: All I did was to express the view that the question of the size of elevators might be profitably looked into. It may be that with new technologies and so on there could be a better system devised. I have not said what I think is the best system and I do not intend to say it.

Mr. HORNER (*Acadia*): Do you not think in criticizing grain movement—since you are the chief of a major hauler of grain on the prairies—that you could profit from the learned advice of the elevator companies, who are now building elevators across the prairies, on what the maximum size should be for low cost operation?

Mr. GORDON: In the last paragraph of my speech I said:

I hope that by exposing frankly the need for co-ordinated action I have made some personal contribution towards this end.

It is much easier to state a problem than it is to solve it. That is all I am saying. I am saying that in the interest of the western farmer everybody connected with this problem should get together and have a damn good talk about it and listen to everybody's ideas for the purpose of finding a co-ordinated solution. Just because I mentioned elevators does not mean that I claim to have knowledge of the best way to run an elevator. All I say is this: Have a look at it. It may be that you are not up to date. It may be that economic skills could be brought into play more effectively and so on. So why not take a look at it?

Mr. HORNER (*Acadia*): There has been too much fanfare about the proposed abandonment of thin-density lines. I do not think that they are thin-density lines. I think the Canadian Pacific and the Canadian National are making a mistake about it, and that the matter has not been studied sufficiently.

Mr. GORDON: Nobody will prevent you from expressing your opinion. Go ahead and do so.

Mr. HORNER (*Acadia*): I would now like to ask you about rail line operating charges. Could you give me some figures?

Mr. GORDON: I could give you some figures, but I do not see how it is pertinent.

Mr. HORNER (*Acadia*): It is certainly pertinent to me on the prairies.

Mr. GORDON: What figure do you want?

Mr. HORNER (*Acadia*): I would like to have some idea of what the Canadian National feels is the maintenance cost per mile where there is thin-density traffic.

Mr. GORDON: What figure have we got?

Mr. TOOLE: I can give you a figure.

Mr. GORDON: Suppose you try, Mr. Toole.

Mr. TOOLE: We have an average figure which, you must remember, is an average for all the west. There could be radical differences between one area and another, depending on the number of bridges and culverts in it. But on the average, the cost per mile to maintain tracks in the west is about \$3,000 per annum.

Mr. HORNER (*Acadia*): You say it is about \$3,000 per annum?

Mr. TOOLE: Yes.

Mr. HORNER (*Acadia*): Just to maintain it?

Mr. TOOLE: That is right.

Mr. HORNER (*Acadia*): Looking at the royal commission report, volume III, you have a figure there at page 230 which looks like \$866 per mile. I might be wrongly interpreting this figure, but could you give me an idea about it?

Mr. TOOLE: I cannot comment on it at the moment.

Mr. HORNER (*Acadia*): I have one other question with regard to train movements. I questioned you concerning the elevator on Vancouver island at Victoria and the shunting of cars across to it by boat. How much longer is the agreement to run between the Canadian National and the elevator company?

Mr. TOOLE: I do not know which one it is.

Mr. HORNER (*Acadia*): You do not know how much longer it will be?

Mr. GORDON: I do not even know if there is an agreement on it. Is there one? Do you have in mind a specific agreement with an elevator company?

Mr. HORNER (*Acadia*): Yes.

Mr. GORDON: I do not recollect it.

Mr. HORNER (*Acadia*): Then you are doing this just gratuitously?

Mr. GORDON: Just as a matter of service.

Mr. HORNER (*Acadia*): You are doing it just as a matter of service?

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): You are loading a full freight train on a vessel and carrying it across with grain to Vancouver Island.

Mr. GORDON: The wheat board directs where they want the grain to go, and we provide the services to haul it as required.

Mr. HORNER (*Acadia*): I am looking at this from the point of view of a prairie farmer, and from the point of view of a person who realizes what a drastic upheaval the branch line abandonment proposed by you and the Canadian Pacific would bring to the prairies. It seems to me that a measure of economy could be exercised. Certainly there must be some way. Would you suggest that it would be better to have a co-operative effort on the part of the grain companies to build large terminals, or to have the harbour board enlarge the port facilities on Vancouver Island? Would this not prove to be an economy in grain movement?

Mr. GORDON: I have not studied the question from that point of view. I do not think it lies in my mouth to say what the wheat board or the elevators should do.

Mr. HORNER (*Acadia*): This is all under "outlook" and the grain movement. You are proposing great changes on the prairies which I do not think you can justify here, and I point out something which is very obvious to anybody who has any knowledge at all of transportation. Yet you say you are blind to it. You have closed your eyes to it, and you are not looking at it. That is simply ridiculous. I notice it is now ten thirty. I shall hold my other questions at this time.

(Translation)

Mr. GRÉGOIRE: Mr. Chairman, the western members are highly interested in western problems. In our province, we grow potatoes, carrots and cabbages. Those products are not the same and they are transported by railroad to a lesser extent. However, we have a problem which was dealt with last year, precisely under the chapter which we call Outlook. It is the problem of bilingualism within the Canadian National. During five or six minutes, I would like to ask a few questions on this matter. Mr. Gordon, I believe that since you last

appeared before this committee, an additional vice-president was appointed with the Canadian National. He is a French-Canadian, Mr. Delagrave, I believe.

(Text)

Mr. GORDON: Yes.

(Translation)

Mr. GRÉGOIRE: What is at present the total number of members of the board of directors of the Canadian National?

(Text)

Mr. GORDON: Well, there are 12, as shown on this black sheet here.

Mr. GRÉGOIRE: Mr. Gordon, what you call in English "the board of directors", we call in French "conseil d'administration". What you call "executive" in English is "la direction" in French; it is not the same in both languages. Then, according to the translation, what I wish to say would rather be called "la direction", the board of administrators, not of directors.

(Text)

Mr. GORDON: Are you referring to those shown on page 17?

Mr. GRÉGOIRE: Yes.

Mr. GORDON: And what is your question?

(Translation)

Mr. GRÉGOIRE: When you appeared before us two years ago, you had a list of the members of the executive which did not include all those names, but was composed of the president, the vice-presidents and the secretary. Since then, you added all those names to the list of "directors" of the company which we had two years ago?

(Text)

Mr. GORDON: I am afraid that I cannot follow your question.

Mr. VAUGHAN: Two years ago following the questioning we did submit, I think, to the committee a list of the positions. Is that what you refer to?

Mr. GRÉGOIRE: It is what you call a selection.

(Translation)

There was the president and seventeen vice-presidents who made up what you refer to as the executive and general officers of the Canadian National. But today I see that the Canadian National comprises a lot more people than the president and the seventeen vice-presidents who were there before. Does this mean that the number of members has increased that much?

(Text)

Mr. VAUGHAN: I think that Mr. Grégoire is referring to the annual report of that time. This list here shows many more names than appeared at that time. The report that you referred to at that time, and the list, merely dealt with headquarters' officers, regional officers, and vice-presidents. But this list here endeavours to take into account the new reorganization structure of the railway.

You must keep in mind the fact that there are regions such as the St. Lawrence Region, Atlantic Region, the Great Lakes Region, the Prairie Region and the Mountain Region.

(Translation)

Mr. GRÉGOIRE: Now when you hold a meeting, not of the board of directors but of the executive officers, that is of the executive, do all the officers shown on page 17 attend?

(Text)

Mr. GORDON: No. This depends upon the circumstances. We do not call together officers of the whole railway to deal with specific matters. This would depend on what the situation was. If the matter involved affects the St. Lawrence Region, for example, we would discuss it with the officers of that region. We have a system whereby several times a year we call in all the Vice-Presidents and have a general discussion about company policy and particular outlook. Then we call in the Regional Vice-Presidents from the Atlantic Region, the St. Lawrence Region, the Great Lakes Region, the Prairie Region and the Mountain Region, and together we have a conference. That conference might be held in Montreal, Winnipeg or anywhere.

(Translation)

Mr. GRÉGOIRE: When you get together to discuss the general problems of the Canadian National do all the people listed here attend, or only the president and vice-presidents of the company?

(Text)

Mr. GORDON: When it is a general conference, yes. We do have meetings on other bases at which we would only have the headquarters staff. The headquarters vice-presidents may come together at different times.

(Translation)

Mr. GRÉGOIRE: Mr. Gordon, last year you submitted a brief,—I have a copy here,—dealing with the objectives of the Canadian National with regard to the French-speaking staff of the company. On page 2 of the French version, you mentioned the fact that you wanted to get more competent French-speaking Canadians interested in the positions offered by the Canadian National. Since you were here last, could you tell us approximately how many promotions there have been, or how many new employees have been taken on for important position within the Canadian National?

(Text)

Mr. GORDON: Where is the chart?

Mr. GRÉGOIRE: That is on page 2 in the French version.

Mr. GORDON: Mind you, we were here only last December which is six months ago and that is not a very long time. As I said before, our general approach is directed toward the question of how best to recognize the equality of the two official languages to meet the needs of the Canadian public and as well to ascertain how French Canadians can best realize their legitimate ambitions to play a role in the company based on equality of opportunity and accomplishment. Since the time I last spoke to you we have been working quietly in the pursuit of that policy but, as you know, it takes time to do these things and work this out. We have a general summary here in regard to the point that you mentioned which gives some indication of the situation.

(Translation)

Mr. GRÉGOIRE: Mr. Gordon, I am not talking about that yet. I simply want to know approximately how many French-speaking Canadians were promoted or obtained senior positions in the past six months?

(Text)

Mr. GORDON: From January 1, 1963 to March, 1964 I can give you the figures. Fifty-six per cent of French Canadians holding positions in our senior management have received promotions, appointments or transfers. At the level immediately below it, which we call our upper middle management level, 34 per cent of French Canadians received either promotions, appointments or transfers.

Mr. GRÉGOIRE: Fifty-six per cent at the higher level and 34 per cent at the lower level received promotions, appointments or transfers?

Mr. GORDON: That is right.

(Translation)

Mr. GRÉGOIRE: Mr. Gordon, is all the printed matter, are all the folders or circulars of the Canadian National now printed in both languages?

(Text)

Mr. GORDON: Yes.

(Translation)

Mr. GRÉGOIRE: Now, another question. In your brief you mentioned, in section 2 (b), a program for recruiting French-speaking graduates and university students which has been in operation since 1963. Have you the approximate figure of the number of people you have recruited among the French-speaking graduates and university students during the past year?

(Text)

Mr. GORDON: As a result of the on-campus interviews conducted by the Canadian National Railways under our formal university recruitment program ten French Canadian graduates accepted work with the Canadian National Railways. That incidentally is 23 per cent of the total graduates hired for permanent employment with the C.N.R. in 1963. In 1964, this year, of on-campus interviews six French Canadian graduates accepted work, which represents 26 per cent of the total graduates hired for permanent employment all across the country.

(Translation)

Mr. GRÉGOIRE: In the following paragraph, that is, in paragraph (2): you mention that practical courses in languages have been given for some time to a limited number of the company's employees. Are these language courses given to the French employees so that they can learn English and to the English employees so that they can learn French?

(Text)

Mr. GORDON: We are almost completed and we started in November, 1963.

(Translation)

Mr. GRÉGOIRE: To the English-speaking employees so that they can learn French.

(Text)

Mr. GORDON: In respect of the reverse, that is French into English, I do not think we have got that worked out but we have it well in hand.

Mr. VAUGHAN: Mr. Grégoire, we have just finished installing the language laboratory with machines, tapes and so on and we are now in the process of organizing the other English instruction programs.

(Translation)

Mr. GRÉGOIRE: One last question, Mr. Gordon, which ties in with several remarks made while you were reading your brief last year, when you mentioned, for instance, that the reorganization created an unprecedented situation because it enabled French-Canadians to take senior positions in the province of Quebec, and you specified in the province of Quebec at that time, and on another occasion you mentioned: "It is expected that several thousand employees of the bilingual areas of Canada will be able to take advantage of this training", and elsewhere you mentioned "applications to the Transport Board and documents pertaining thereto are now being prepared in the two languages for the muni-

icipal councils dealing with public services, when such applications concern a municipality in the province of Quebec". Now does this work for the purpose of "biculturalizing" or "bilingualizing" the Canadian National, according to the three passages I have just quoted, only apply to bilingual areas of Canada or to the province of Québec, or to the entire country?

(Text)

Mr. GORDON: For example, in filing documents with municipalities, which is one example you gave, we file them in two languages wherever there seems to be a need for doing so, but we do not make a practice of providing all documents in both languages all across Canada.

An hon. MEMBER: That would be ridiculous.

(Translation)

Mr. GRÉGOIRE: For example in towns in Alberta, or cities such as Edmonton, where English is mainly spoken but where there may be some French-speaking aldermen, and there are a number of cities, Windsor, Winnipeg, London, Sarnia, Moncton or Fredericton, do you intend to apply this practice to the entire country, in areas outside the province of Quebec or in areas that are not officially bilingual.

(Text)

Mr. GORDON: That works in this way. Our local officials are well aware that we are prepared to provide any document in both languages when there is a need. Our local official, therefore, is aware, when there may be a group of French speaking Canadians who would like to receive this in both languages, that he can provide it in bilingual form. We do not do that when there does not seem to be a demand for it.

(Translation)

Mr. GRÉGOIRE: Then I will put my question in another way. Let us suppose that forms have to be prepared for the town of Jonquière, in my riding, where 99% of the people are French-speaking, would such forms be automatically prepared in English and French or would they be prepared in French, and then in English only on request?

(Text)

Mr. VAUGHAN: That is right.

Mr. GORDON: Yes, that would be right.

(Translation)

Mr. GRÉGOIRE: So in some areas you only prepare them in French and in others only in English, but in general you try to prepare them in both languages?

(Text)

Mr. GORDON: Yes, that is correct.

(Translation)

Mr. GRÉGOIRE: Well that is all Mr. Gordon. Mr. Chairman, before finishing I would just like to tell Mr. Gordon that last year when Mr. Fisher asked me to move that he be congratulated, I agreed to congratulate him on the plan he suggested but I said that we would wait and see what results it would bring, that we considered the plan a very fine one but that we would wait and see what results it would bring before congratulating him unreservedly. From the questions we have asked Mr. Gordon and the answers he has given I think we can be satisfied with the work the Canadian National are doing in order to promote bilingualism in this Crown Corporation.

(Text)

The CHAIRMAN: Mr. Cadieu?

Some hon. MEMBERS: Carried.

Mr. CADIEU: Mr. Chairman, I am going to forego asking a lot of the questions I intended to ask because they have been covered by Mr. Horner in respect of rail line abandonment. In view of the explanation given by the minister and Mr. Gordon I feel we are going to have the opportunity of debating rail line abandonment before any further steps are taken.

I should like to ask a question to follow up one other situation. The Canadian National Railways did have a colonizational development branch in respect of agriculture. Does it still maintain such an organization?

Mr. GORDON: Yes, we have it in our organization but not under that specific name. It has been blended in with our sales department.

Mr. VAUGHAN: Yes.

Mr. CADIEU: For many years this organization did a lot of work in respect of developing new branch lines. The colonization department interested many settlers in going to areas to develop farms and build farm homes on the basis of an indication by the Canadian National Railways that it would provide them with a railway. Do you not think that the Canadian National Railways is lax in respect of not completing those lines, and I refer, as an example, to the line between Frenchman Butte and Heinsburg, Alberta and for allowing these people to go in there to spend their lives building up homes, settlements and very fine farms? I might suggest the same thing in respect of the line between St. Walburg and Grand Centre, Alberta where the grade was put in but after settlers went in there to develop this country the steel was never laid? You are now coming up with a proposal for the abandonment of the Turtleford-Medstead-Shellbrook line. This will result in a lack of service to this whole area. I think the Canadian National have the responsibility for completing these gaps. I think these people were misled when they were made to feel they were going to be located on a rail line when they went in and settled this country. They built fine homes and worked their farms into good shape and now the Canadian National has not lived up to their promise. I think there has been some mismanagement involved here. The line was not able to pay because it was not, in fact, finished. It was impossible for the line to pay because, as I said, these gaps were not filled in.

I feel very strongly about this. However, I was pleased to some extent when you mentioned the other day you were willing to take another look at these gaps, and I hope you do.

There is one other question I would like to put. What is being done in respect of the co-operation between the two main lines, the Canadian National and Canadian Pacific, in respect of the running rights, which I feel has been detrimental to this country.

The CHAIRMAN: Shall the report carry?

Some hon. MEMBERS: Carried.

Mr. HORNER (*Acadia*): I have one question in respect of rail line abandonment. Have you applied for abandonment to the board of transport commissioners, and do they have to hear you even though there is legislation before the House of Commons?

Mr. GORDON: Technically, yes.

Mr. HORNER (*Acadia*): And they have to hear the Canadian Pacific as well?

Mr. GORDON: Yes, they have to. They have a statutory duty to do so. But, by agreement, we have filed these applications with a request to defer consideration. In other words, we have foregone our right to appear by filing the

application with a request to postpone and not deal with the application until the MacPherson commission legislation is enacted.

The CHAIRMAN: Shall the report carry?

Some hon. MEMBERS: Agreed.

Mr. HORNER (*Acadia*): I have one further question to put to the Minister of Transport. Do you see any error in this logic, that you bring the MacPherson commission report into the House of Commons, give it top priority over other legislation, let it come before this committee, and then let it go back to what you consider real top priority.

Mr. PICKERSGILL: I think maybe, Mr. Horner,—at least that is my opinion—we should be very cautious about this.

I never have said that this legislation had top priority. This is not my business in the cabinet. I had something to do with it last session but this session I am not one of the ministers that primarily decides. The Prime Minister and the leader of the house make the recommendations in respect of top priority.

I have insisted and I continue to insist that this is a very important legislation. But, I am only one member of the government. And, this government, like every other government, has to settle the order in which we bring our legislation forward. I cannot settle it. It is settled by the whole cabinet and, primarily, by the Prime Minister.

Mr. HORNER (*Acadia*): I think evidence before this committee bears out the fact that there are two very important pieces of legislation pending in respect of the well being of the economy. All I am asking is do you see anything wrong with the logic of bringing in the MacPherson royal commission report, giving it first and second reading, and then putting it in number one position over the flag, for instance?

An hon. MEMBER: Go on.

Mr. HORNER (*Acadia*): And, then come back to the flag issue while the committee is studying the MacPherson royal commission report.

Mr. PICKERSGILL: If we could do that by agreement and go through all those stages without any debate and bring it to the committee and have the debate here, I would be very much interested, but it is a question of time.

The CHAIRMAN: Order.

Will someone move the adoption of the report?

Mr. LLOYD: I so move.

Mr. MATTE: I second the motion.

Some hon. MEMBERS: Agreed.

Mr. LACHANCE: You are filibustering the flag.

Mr. HORNER (*Acadia*): Who is filibustering the flag? Because someone speaks in this committee for five minutes you think I am filibustering this committee.

Mr. LLOYD: I think all members should realize that they will have other opportunities to discuss the subject matter. I think the matters before us should be disposed of at this time, and then these other questions could be pursued.

The CHAIRMAN: The report has been carried.

Shall the Canadian National Railways capital and operating budget carry?

Some hon. MEMBERS: Carried.

The CHAIRMAN: Shall the auditor's report to parliament carry?

Some hon. MEMBERS: Carried.

The CHAIRMAN: Shall the annual report of the Canadian National Railways securities trust carry?

Some hon. MEMBERS: Carried.

Mr. RHÉAUME: Mr. Chairman, is there any possibility that we could get on with Trans-Canada Air Lines, say, on Monday morning. I would be prepared to so move.

The CHAIRMAN: It was my intention to proceed with that report on Monday morning at 10 o'clock, but there are very few, like me, who get here that early.

Mr. FISHER: Why not on Tuesday?

The CHAIRMAN: Monday would be better.

Mr. ROCK: Most members do not arrive here by 10 o'clock on Monday morning.

Mr. PICKERSGILL: If hon. members will bear with me, I cannot be here myself on Monday because I have made a previous engagement to be somewhere else on government business, but I would suggest that we meet at 4 o'clock on Monday afternoon.

Mr. RHÉAUME: I move that we hear Trans-Canada Air Lines on Monday afternoon at 4 p.m.

Mr. PICKERSGILL: I would like to state that Mr. McGregor told me there is a board of directors meeting on Friday of next week and I would hope the committee would bear that in mind. If the committee could not finish before Friday he would have to leave and then you would have to put it over until next week.

Mr. HORNER (*Acadia*): I am in agreement with that.

Some hon. MEMBER: Agreed.

—The committee adjourned.

HOUSE OF COMMONS

Second Session—Twenty-sixth Parliament

1964

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STANDING COMMITTEE

ON

**RAILWAYS, CANALS AND  
TELEGRAPH LINES**

*Chairman:* JEAN T. RICHARD, ESQ.

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

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MONDAY, JUNE 22, 1964

TUESDAY, JUNE 23, 1964

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Respecting

Annual Report and Capital Budget

TRANS-CANADA AIR LINES

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WITNESSES:

The Honourable John Whitney Pickersgill, *Minister of Transport*; From *Trans-Canada Air Lines*: Messrs: G. R. McGregor, President, W. S. Harvey, Vice-President, Finance, J. L. Rood, Director of Flight Operations, R. C. MacInness, Director of Public Relations, D. W. Benson, Assistant Director, Passenger Service, A. J. Gauthier, Area Manager, Government and Public Relations.

ROGER DUHAMEL, F.R.S.C.

QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1964

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ON  
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Foy	Lloyd	Tucker—60.
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(Quorum 12)

Maxime Guitard,  
*Clerk of the Committee.*

- (1) Mr. Muir (*Lisgar*) replaced Mr. Stefanson, on June 22, 1964.
- (2) Mr. Nugent replaced Mr. Horner (*Acadia*), on June 22, 1964.
- (3) Mr. Pugh, replaced Mr. Bell, on June 22, 1964.

ORDER OF REFERENCE

MONDAY, June 22, 1964.

*Ordered*,—That the names of Messrs. Muir (*Lisgar*), Nugent, and Pugh be substituted for those of Messrs. Stefanson, Horner (*Acadia*), and Bell respectively on the Standing Committee on Railways, Canals and Telegraph Lines.

*Attest*.

LÉON-J. RAYMOND,  
*The Clerk of the House.*



## MINUTES OF PROCEEDINGS

MONDAY, June 22, 1964.

(10)

The Standing Committee on Railways, Canals and Telegraph Lines met at 4:04 o'clock p.m. this day. The Chairman, Mr. Richard, presided.

*Members present:* Messrs. Basford, Berger, Cadieu, Cantelon, Cantin, Cooper, Crossman, Crouse, Fisher, Grégoire, Hahn, Irvine, Lachance, Lamb, Lloyd, Macdonald, MacEwan, Marcoux, Matte, McBain, McNulty, Muir (*Lisgar*), Nugent, Pascoe, Prittie, Pugh, Rhéaume, Richard, Rock, Stenson, Tucker (31).

*Also present:* The Honourable John Whitney Pickersgill, Minister of Transport.

*In attendance:* From Trans-Canada Air Lines: Messrs. G. R. McGregor, President, W. S. Harvey, Vice-President, Finance, J. L. Rood, Director of Flight Operations, R. C. MacInnes, Director of Public Relations, D. W. Benson, Assistant Director, Passenger Service, A. J. Gauthier, Area Manager, Government and Public Relations.

The Chairman welcomed the Officials from Trans-Canada Air Lines, especially Mr. G. R. McGregor, President, whom he invited to read the 1963 T.C.A. Annual Report. However, the Committee agreed to dispense Mr. McGregor from reading the Annual Report but on the contrary proceeded on a section by section questioning.

The following sections were carried unanimously; namely: "Financial" and "Insurance Reserve Fund".

Then Mr. Nugent asked the Minister of Transport to table the Trans-Canada Air Lines Contract. The Minister undertook to do so.

On section intituled "Service and Traffic Growth", at 5:55 o'clock p.m. the Committee adjourned until 8:00 o'clock p.m. this evening.

## EVENING SITTING

(11)

The Standing Committee on Railways, Canals and Telegraph Lines reconvened at 8:05 o'clock p.m. this evening. The Chairman, Mr. Richard, presided.

*Members present:* Messrs. Basford, Berger, Cantelon, Cantin, Crouse, Fisher, Granger, Guay, Hahn, Irvine, Lachance, MacEwan, Marcoux, Matte, Muir (*Lisgar*), Pascoe, Prittie, Rhéaume, Richard, Rock, Stenson, Tucker (22).

*In attendance:* The same as at this afternoon's sitting.

The Committee resumed consideration of the 1963 Trans-Canada Air Lines Annual Report.

Section intituled "Service and Traffic Growth" was carried unanimously.

And the examination of the witnesses continuing, at 10:30 o'clock p.m. the Committee adjourned until 10:00 o'clock a.m. tomorrow.

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*(Please note, that all the evidence adduced in French and translated into English, for the sitting of June 22, 1964, afternoon sitting, was recorded by an electronic recording apparatus pursuant to a recommendation contained in the Seventh Report of the Special committee on Procedure and Organization, presented and concurred in, on May 20, 1964.)*

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TUESDAY, June 23, 1964.  
(12)

The Standing Committee on Railways, Canals and Telegraph Lines met at 10:07 o'clock a.m. this day. The Chairman, Mr. Richard, presided.

*Members present:* Messrs. Balcer, Basford, Beaulé, Béchard, Berger, Brown, Cantelon, Cowan, Crossman, Fisher, Granger, Grégoire, Guay, Hahn, Kindt, MacEwan, Marcoux, McBain, McNulty, Muir (*Lisgar*), Orlikow, Pascoe, Prittie, Rapp, Rhéaume, Richard, Rock and Tucker. (28)

*In attendance:* From Trans-Canada Air Lines: Messrs. G. R. McGregor, President, W. S. Harvey, Vice-President, Finance, J. L. Rood, Director of Flight Operations, R. C. MacInnes, Director of Public Relations, A. J. Gauthier, Area Manager, Government and Public Relations, D. W. Benson, Assistant Director, Passenger Service.

The Committee resumed consideration of the 1963 Trans-Canada Air Lines Annual Report.

Sections intituled "Equipment and Facilities", "Personnel", and "Outlook" were carried unanimously.

The complete 1963 Trans-Canada Air Lines Annual Report was carried unanimously.

The following were also carried unanimously; namely: The Trans-Canada Air Lines Auditor's Report to Parliament for the year ended on December 31, 1963 and the Trans-Canada Air Lines Capital Budget 1964.

Mr. Rhéaume suggested that a statement made by the Honourable John Whitney Pickersgill, Minister of Transport, be inserted in the Report of the Committee to the House of Commons.

Mr. Berger moved, seconded unanimously, a vote of appreciation and thankfulness to Mr. G. R. McGregor, for his effort to promote bilingualism among the employees of the Crown Corporation of which he is the President.

The Chairman extended his thanks and those of the Committee to the Officials of both The Canadian National Railways and Trans-Canada Air Lines for their patience in answering all the questions posed to them by the members of the Committee.

At 12:38 o'clock p.m. the Committee adjourned to the call of the Chair.

Maxime Guitard,  
Clerk of the Committee.

(Text)

## EVIDENCE

MONDAY, June 22, 1964

The CHAIRMAN: Gentlemen, this afternoon we are taking up the report of Air Canada.

In attendance with us this afternoon is Mr. G. R. McGregor, president; Mr. W. S. Harvey, vice-president, finance; Mr. J. L. Rood, director of flight operations; Mr. A. J. Gauthier, area manager, government and public relations, and Mr. R. C. MacInnes, director of public relations, who is not here yet but is expected later.

Mr. McGregor, on behalf of this committee I welcome you and in order to save time I would ask you to read the report which you have submitted to this committee so that we can consider it.

Mr. G. R. MCGREGOR (*President, Trans-Canada Air Lines*): Thank you, Mr. Chairman.

I would like to indulge in a little preamble beforehand, if I may, and say there obviously will be repetition and confusion in respect of the name of the company. At the moment I perhaps could explain what the situation is as of now. A private member's bill, No. C-2, was passed in the House of Commons. To a certain extent it was amended in the Senate and then approved by the Senate, and eventually given royal assent, with the stipulation in the bill that its effectiveness would depend on proclamation. So, the bill presently, as I understand it, is law but not yet proclaimed. The suggested date for proclamation is January 1, 1965.

There are quite a few legal activities to be indulged in before the name can be changed officially. Such things have to be considered as our route licences issued by foreign government air authorities. They have to have a specific date on which the official name changes. If anyone uses, or reference is made to, the names Air Canada or TCA or Trans-Canada Air Lines we all will realize that we are speaking about the same corporation.

Another thing I want to say before I begin reading the report is that I am exceedingly grateful to the committee for agreeing to sit today. I find myself with a need to be at a board of directors meeting in Vancouver not many days hence and I am grateful we can start today.

The report is dated February 7, 1964, and is addressed to the Minister of Transport. It reads as follows:

### ANNUAL REPORT

*February 7, 1964*

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 year 1963.

This was a period of contrasts, marked not only by strengthened economic position but also, near the close of the year, by major tragedy.

#### *Financial*

In 1963 T.C.A. emerged from a three-year period of deficit with a net income of \$527,875. Earnings before interest expense amounted to \$12,146,388 and represented a return on investment of 4 $\frac{3}{4}$  percent compared to 3 $\frac{1}{4}$  per cent in the previous year.

Four principal factors contributed to this recovery:

higher revenue yields per passenger mile resulting mainly from tariff action in the previous year; a modest increase in the volume of scheduled passenger traffic; a greatly expanded volume of Atlantic charter traffic following increased T.C.A. participation in this market; further unit cost reductions derived from the higher proportion of total transportation provided by DC-8 aircraft.

Offsetting these to a small degree was a decline in the system passenger load factor on scheduled services from 60 per cent to 59 per cent.

The system average revenue per passenger mile rose 3 per cent to 6.21¢ as tariff revisions introduced during the previous year were in effect for all of 1963. In March a revised family plan tariff for first class travel in North America was introduced. While this tended to lower yields per passenger mile it increased the volume of first class traffic and improved the first class passenger load factor. Canada-Caribbean fares were adjusted in April in accordance with International Air Transport Association agreements. This contributed to better yields on southern services.

Mr. GRÉGOIRE: Mr. Chairman, I think everyone received a copy of this annual report approximately one or two months ago. I am sure that everyone has read it and I think that everyone would be agreeable to dispense with the complete reading of it by Mr. McGregor. I am sure this would hasten the work of the committee and would enable it to do its work. As I am sure that everyone has read it I would move that we dispense with the reading of it.

The CHAIRMAN: I do not know what the feeling is of the other members of the committee. It has been the practice to read it. But, if it is the general feeling of the committee not to read it I am in your hands in this connection.

Some hon. MEMBERS: Dispense.

The CHAIRMAN: Well, if you do not object, Mr. McGregor.

Mr. MCGREGOR: I certainly do not.

The CHAIRMAN: That is fine. Is it agreed that the report be taken as read?

Some hon. MEMBERS: Agreed.

Mr. MCGREGOR: The report is as follows:

Passenger traffic on scheduled services was 3 per cent above the previous year. Total passenger volume on scheduled and charter operations combined grew 9 per cent, the growth being mainly provided by Atlantic charter traffic which increased nearly eightfold and represented almost one-third of total Atlantic passenger travel.

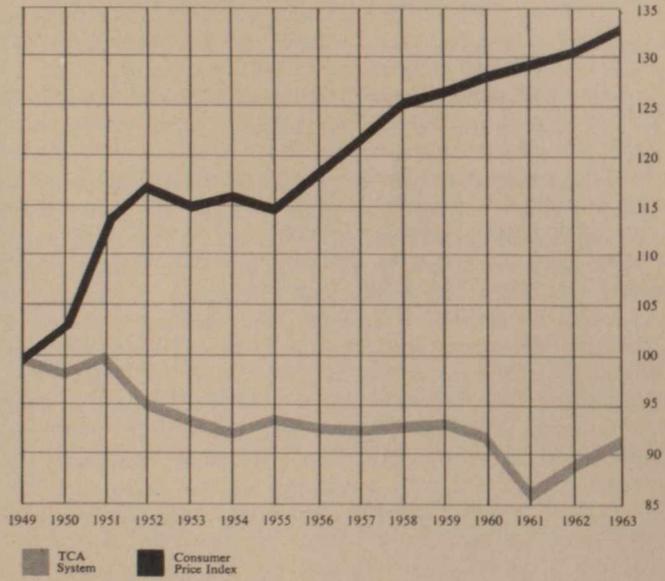
North American passenger growth was less than 2 per cent, with expansion in the latter part of the year overcoming earlier declines. The high-volume transcontinental routes recorded virtually no change from last year. There were declines on some short-haul routes. The only area of dramatic passenger growth on scheduled services was on the Bermuda and Caribbean routes where traffic increased 31 per cent.

System air freight traffic increased 22 per cent. Rapid growth occurred on the Atlantic where DC-8 freighter service was introduced in the early part of the year. Air express volume advanced 7 per cent and air mail 8 per cent.

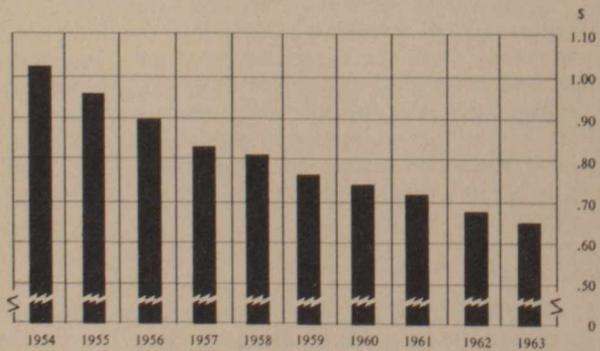
The interaction of these yields and growths resulted in total revenues reaching \$199,390,290, an increase of 9 per cent over the previous year.

Unit costs recorded further significant improvement in 1963. Operating expense per available ton mile dropped from 29.67¢ to 28.15¢., and total expense from 31.52¢ to 29.75¢. The chart on page 14 indicates the substantial reduction achieved in unit costs over the past ten years—over 30 per cent

Index of  
T.C.A. Average  
Passenger  
Revenue  
Yield vs.  
Consumer  
Price Index  
1949-1963  
(Year 1949 = 100)



Average Return  
Per Mail  
Ton Mile —  
North American  
1954-1963



below 1954 levels. This is particularly noteworthy in view of the extensive service provided on short-haul routes of low traffic density where costs are significantly higher.

Expanded DC-8 and Vanguard flying led to an improvement of 18 per cent in fleet productivity to 3,744 available ton miles per aircraft hour. This productivity was subdivided by aircraft types as follows:

	Available Ton Miles Per Aircraft Hour
Viscount .....	1,200
Vanguard .....	3,858
DC-8 .....	9,082

This improved fleet productivity was combined with a slight decrease in staff to bring about an increase in employee productivity of 16 per cent.

Capital expenditures in 1963, as in the past, were within the authorized budget and amounted to \$28,800,000. This total consisted mainly of final payments on four DC-8 aircraft, progress payments on another, and initial payments on six DC-9 aircraft. The expenditures were entirely financed from Company resources and required no additional borrowings. As a result, the outstanding debt was unchanged from the 1962 year-end level and interest charges for 1963 increased by a relatively small amount.

Depreciation rose 13 per cent, principally reflecting the additional investment in flight equipment. The Company continued to depreciate its aircraft, ground equipment and buildings in the same manner and at the same rates as in recent years. This procedure provides for the systematic write-off of each asset over its estimated useful service life, down to a residual value. Such practice is common throughout the airline industry.

#### *Insurance Reserve/Fund*

A major DC-8 accident in the month of November seriously affected the Company's self-insurance reserve. The write-off of the book value of this aircraft depleted the reserve by \$7,114,000. Accruals to the reserve in 1963 totalled \$3,950,000, being an estimate of the premium expense of outside underwriting. The year-end balance of \$5,982,000 reflects these transactions.

A second DC-8 was extensively damaged at London, England, and further charges arising from both accidents could conceivably reach \$7,200,000. It is anticipated that the year-end balance, together with accruals made during 1964, will be sufficient to meet these added charges. Therefore it is not expected that the fund will be put into a deficit position as a result of these accidents. However, unless it is possible to increase the annual accrual to an amount greater than the estimated premium cost of outside insurance, the fund will not attain for several years the \$10 million level established by the Board of Directors.

#### *Service and Traffic Growth*

The 3,883,590 passengers carried on scheduled services by T.C.A. in 1963 represented only a slight increase from the previous year's total, but because of a longer average journey, revenue passenger miles rose by 3 per cent. While this could be regarded as a healthy growth, it was, nevertheless, a substantial decline from the 7 per cent increase in passenger traffic recorded in 1962 and lends support to the Company's conviction that dramatic annual increases in domestic air travel can no longer be counted upon and that in future years variations in air transportation volume will be much more directly linked to the general condition of the nation's economy.

To accommodate the additional traffic 5 per cent more seat miles were made available. This too represented a marked contrast with the preceding year when passenger capacity rose by 14 per cent.

There was a very substantial growth of air freight traffic, 32,000,000 ton miles being flown, an increase of 22 per cent. Air express traffic rose 7 per cent to 3,800,000 ton miles. This gratifying trend was due to a variety of factors, including more cargo capacity on jet aircraft, the efforts by government and by industry to win new export markets for Canada, the lifting of Canadian import surcharges and the concentrated air freight sales program conducted by the airline.

DC-8 aircraft in mixed passenger/cargo configuration joined the standard DC-8s on the trans-Atlantic route and in October scheduled jet freight service was inaugurated between Montreal, Toronto, Winnipeg, Edmonton and Vancouver with each flight capable of carrying up to 45,000 pounds of cargo. These developments made possible a through jet freighter service between Vancouver and London three days a week, providing Western Canada with one-day transportation to and from the United Kingdom.

In terms of total traffic, revenue ton miles increased by 10 per cent while available ton miles rose by 13 per cent.

The quality of the transportation service offered by the airline was improved by greater use of jet equipment and by the substitution of the larger and faster propeller turbine Vanguards for Viscounts on some routes. In the summer months five transcontinental jet flights were operated daily while on the Atlantic 26 such flights were scheduled weekly providing more than 3,400 seats in each direction.

TCA recognizes that the ultimate test of the quality of its service is the extent to which it satisfies the public. Because of this fundamental interest the Company continued to devote time and money to a quality measurement program that has been in effect for fifteen years. Involved were periodic passenger opinion surveys and a methodical and objective sampling of service quality in such areas of primary customer concern as reservations, ticket and airport counters, operating regularity, aircraft and cabin servicing, promptness of baggage delivery and air freight service. Very high standards are used in quality evaluation and the findings are employed by management to determine the service areas on which supervisory attention should be concentrated.

In 1963 TCA marked its twentieth year of Trans-Atlantic service and its fifteenth year of operations to the Caribbean, providing record capacity and carrying record traffic totals on both routes.

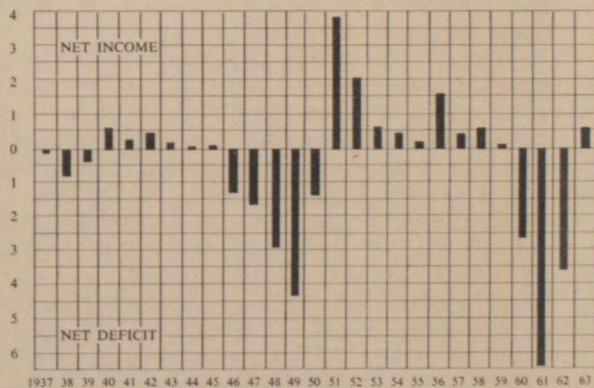
Because of the inability of the airports at Brandon, Yorkton, Swift Current and Medicine Hat to accommodate Viscount aircraft, the smallest in T.C.A.'s turbine fleet, it became necessary for the airline to withdraw its service from those communities. A transfer of the operation to TransAir was, however, negotiated with the approval of the federal authorities and that company commenced operations on April 15. At the time T.C.A. disposed of its two remaining DC-3s, bringing to an end its operation of piston engined aircraft.

In September, Viscount service was inaugurated at Trois-Rivières on the Montreal-Quebec City route.

Throughout the year sales efforts were intensive. T.C.A. conducted, for the purpose of increasing air travel from Canada to the United Kingdom and Continental Europe, a major stimulative advertising campaign with satisfactory results. The quality of the promotional effort remained high with T.C.A. being named the top Canadian transportation advertiser for 1963. A company film was judged to be the best Canadian travel film of the year in the Canadian Tourist Association's film contest.

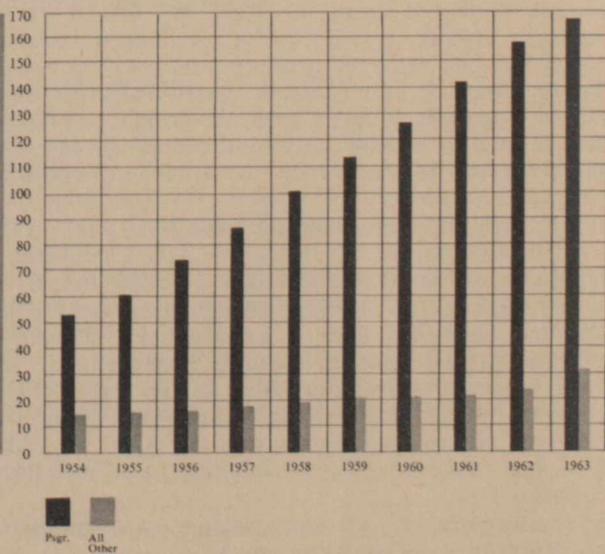
Net Income  
or Deficit,  
1937-1963

MILLIONS  
OF DOLLARS



Sources of System  
Revenues,  
1954-1963

MILLIONS  
OF DOLLARS



Continued cooperation with the Canadian postal service produced in 1963 a new record volume of domestic air mail, with further improvement in the high standard of service accorded this priority traffic. The rise in domestic mail to 11,300,000 ton miles during the year had also the planned effect of lowering the unit cost to the Post Office Department from a yearly average of 68c. per ton mile in 1962 to 65c. per ton mile in 1963. The agreement which has produced, year after year, this healthy relationship between volume and unit cost, has been in effect now for thirteen years without any change in the basic formula. It is unique and responsible in large measure for the fact that Canadians enjoy the highest standard of air mail service in the world at lowest cost.

Record volumes of air mail were also transported on international routes. Agreements were completed with three foreign airlines for reciprocal transportation of national mail on bilateral routes. These foreign airlines have undertaken to carry air mail of Canadian origin to their countries on T.C.A.'s behalf while T.C.A. in return carries their national air mail to Canada under the same terms and conditions. Experience in 1963 has shown that these arrangements, the first of their kind in international civil aviation, are not only mutually beneficial to the airlines concerned, but have brought about significant improvement in the quality of international air mail service.

At International Air Transport Association conferences T.C.A. played a leading role in efforts to reduce North Atlantic fares. This endeavour has met with a considerable degree of success and the Company is convinced that if it had not been for the stand it took, sometimes alone among the international carriers, the fares probably to become effective April 1, 1964 would be at a higher level.

In general, the domestic passenger fare structure was static. Unhappily, the problem of the transcontinental fare differential between T.C.A. and Canadian Pacific Airlines remained unresolved in spite of the best efforts of T.C.A. to arrive at a solution.

Air freight rates between Canada and the Caribbean were lowered three times during the year, providing special impetus to an already expanding market.

The continuation of the established commercial agreement with British Overseas Airways Corporation on the North Atlantic again proved economically sound and contributed to more effective scheduling and high standards of transportation service.

At the close of the year T.C.A., the ninth largest airline in the free world, was operating over 37,267 route miles linking Canada, the United States, the British Isles, Continental Europe and the Caribbean. This far flung route pattern is illustrated on pages 12 and 13.

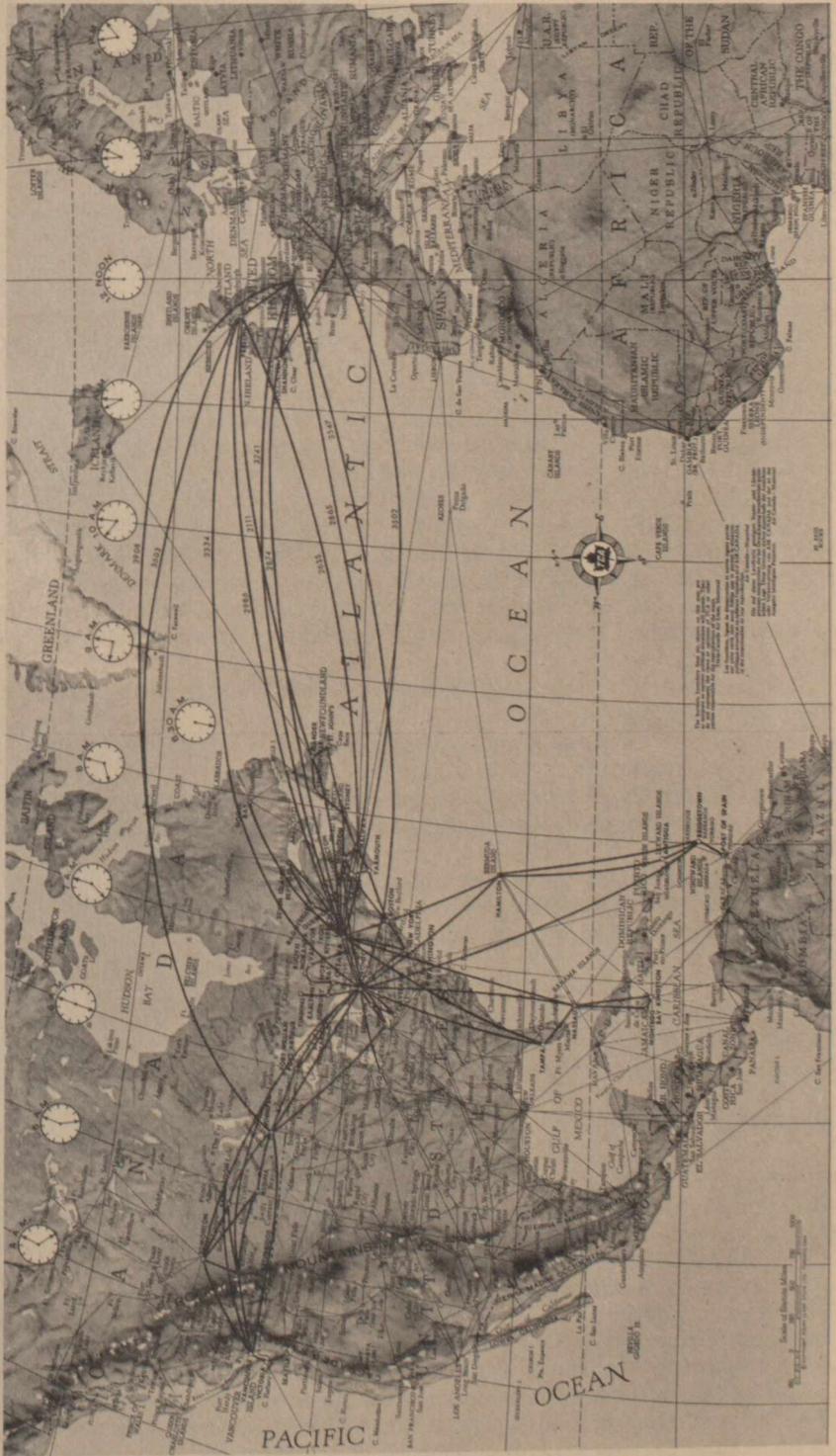
#### *Equipment and Facilities*

The T.C.A. fleet committed to line service at the close of 1963 consisted of 75 aircraft: 13 DC-8s, 22 Vanguards and 40 Viscounts. In addition, one DC-8 was under repair and six Viscounts were surplus. Two other Viscounts were sold during the year. The Company's flight equipment, all-turbine in nature, was well balanced and carefully selected to provide good service on the wide variety of long, medium and short haul operations called for by the route pattern. Delivery was taken of four more DC-8s. These were equipped with Pratt and Whitney fan engines and designed for great load flexibility either as all-cargo or all-passenger transports or in a combination of both.

A catastrophic accident occurred on November 29 when a DC-8 crashed at Ste. Therese, Quebec, shortly after take-off from Dorval with the complete loss of life of the 111 passengers and seven crew members. The aircraft was totally

ROUTES OF TRANS-CANADA AIR LINES

TCA SERVICES  
CONNECTING SERVICES

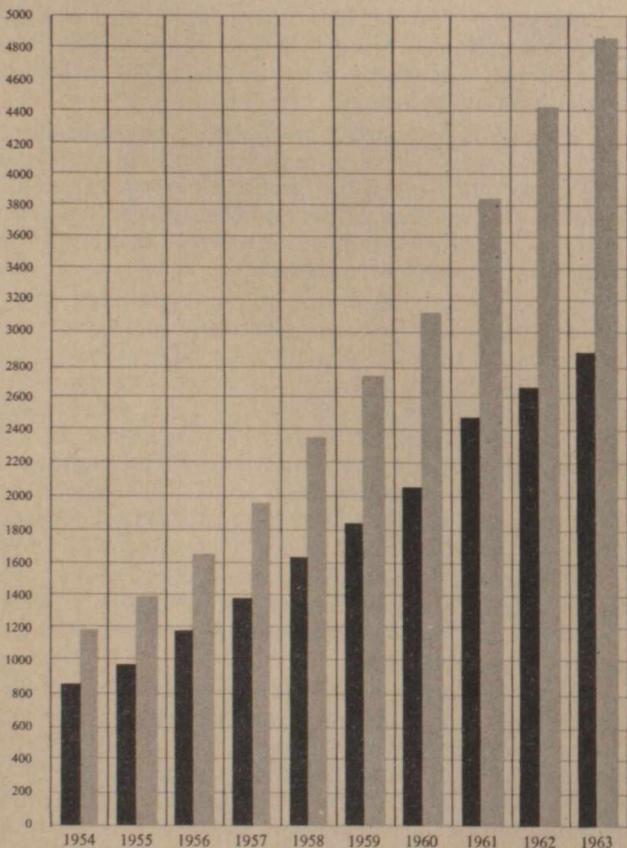


Available  
Seat Miles  
and Revenue  
Passenger  
Miles  
(Including Charter)  
1954-1963

■ Revenue  
Passenger Miles

■ Available  
Seat Miles

MILLIONS

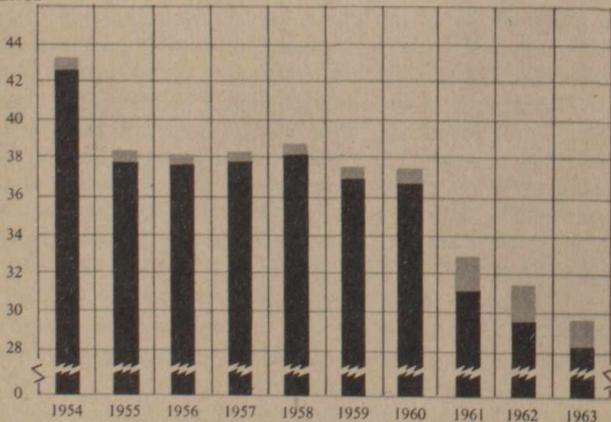


Passenger % Load Factor 72 70 73 71 69 67 66 64 60 60

Operating  
and Total  
Costs per  
Available  
Ton Mile  
1954-1963

■ Operating  
Cost

CENTS



destroyed. This was T.C.A.'s first major accident with turbine powered aircraft in the eight years that it has operated such equipment.

Earlier in November another DC-8 was seriously damaged on take-off at London airport when it ran beyond the end of the runway and came to rest in a field. In this case there were no casualties and the aircraft was not damaged beyond economical repair.

There is no apparent relationship between the two accidents. The London occurrence was due to an aborted take-off, the reason for which has not yet been reported by the Government investigators involved. The Ste. Therese tragedy, on the other hand, apparently resulted from some catastrophic occurrence in flight. At London the aircraft involved was of the mixed passenger/cargo type, while at Ste. Therese the DC-8 was of an all-passenger configuration.

T.C.A. ended, later in 1963, an intensive two-year evaluation of all jet aircraft that could be considered as candidates to replace and to complement the propeller-turbine aircraft now in service on the short to medium range routes. This thorough technical study was given to five aircraft types which would be available for delivery in 1966, when required by the Company. All called for the engines to be mounted at the rear of the aircraft. Three types were twin-engined, while the others had three engines. On the completion of this analysis it was apparent that for T.C.A.'s specific requirements, the Douglas DC-9 twin jet aircraft enjoyed a substantial superiority. An initial order was placed for six of them, having a total value of not more than \$24,000,000.

The airline achieved the highest level of operating regularity in its history, its performance comparing very favourably with general industry standards. "On time" performance set new records of excellence. 99% of all scheduled mileage was completed.

All three types of turbine powered aircraft in the Company's fleet performed well and too much credit cannot be given to the airline's technical staff. The careful selection and care of its aircraft is T.C.A.'s primary consideration and responsibility. Indicative of the high calibre of the flight equipment and its maintenance was the further extension of the service life between overhauls of the Rolls Royce Dart engines of Viscount aircraft to 4,900 hours. This was by far the best service life achieved by an engine in the air transportation industry.

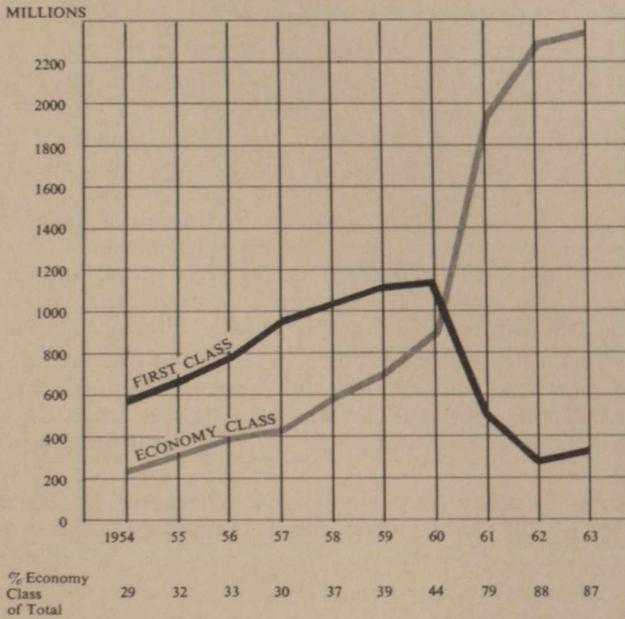
A new base was completed at Halifax in May to provide line maintenance for aircraft serving the Atlantic Provinces.

New and superior sales offices were opened in Winnipeg and in Montreal's Place Ville Marie. Other sales quarters were expanded and refurbished in a number of Canadian cities. In the British Isles attractive new offices opened in Glasgow and Dublin. Modest "off-line" quarters were established in Birmingham and Manchester to widen the Company's Overseas sales coverage.

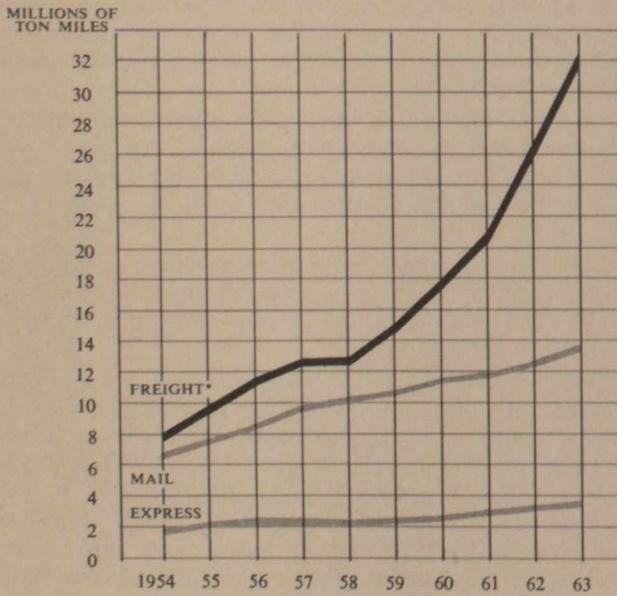
Because of the major program of airport terminal building construction by the Department of Transport, the Company's airport passenger handling facilities benefited tremendously at many points. Canada's airports are rapidly reaching a very high level of excellence because of the department's activities and clearly compare well with those of other nations. T.C.A. was again happy to associate itself with this work. Unfortunately, the problem of finding suitable airport accommodation at New York remained unresolved.

The new electronic reservations system, known as ReserVec, went into full operation. Passengers across Canada and in those areas of the United States served by T.C.A. are now able to obtain almost instantaneous confirmation of reservations requests. The new equipment was introduced with a minimum of complication and has largely eliminated reservations errors. ReserVec, designed and manufactured in Canada, is the most modern system of its kind in the world and a credit to Canadian technology.

### Revenue Passenger Miles by Class, 1954-1963



### Growth of Mail, Freight and Express Traffic, 1954-1963



\*Including Charter

*Personnel*

T.C.A. employees at year-end numbered 11,330. The majority of these are highly qualified specialists in various fields of air transportation and together comprise a closely knit team with an invaluable accumulation of experience.

Negotiations with unions representing various groups of T.C.A. employees, while protracted in some cases, all ended in agreement and the airline added another year to its long history of trouble-free industrial relations.

One feature of the new agreement with the Canadian Air Line Flight Attendants Association was provision for a completely English/French bilingual Montreal base for stewardesses and pursers. This policy, to take effect early in 1965, will ensure that almost all domestic flights east of Toronto and flights to continental Europe will be completely staffed by bilingual flight attendants. Other steps were taken to encourage an increase of bilingualism throughout the airline, bearing in mind the Company's responsibility to provide a truly national service and to meet the requirements of international markets.

Mr. F. T. Wood, Vice-President of Corporate Services, and one of the airline's first employees, resigned to assume the chairmanship of the Canadian air transport board. His counsel will be missed, but the company is pleased that his wide experience is now available to the broad administration of Canadian aviation policy.

The performance of personnel was again characterized by hard work and efficiency and the airline's men and women remained its greatest asset.

*Outlook*

Although replenishment of the insurance reserve will severely curtail net earnings for the next three years, in 1964 the company looks forward with confidence to another year of expanding service and growing economic strength. Domestic passenger traffic should increase at about the rate of growth of the gross national product, or between three and five per cent. It is hoped that there will be a marked growth of trans-Atlantic travel as a result of lower fares, even though these will reduce unit yields. The company, through its IATA membership, will continue to press in the future for inexpensive international air travel. The rapid increase in traffic to southern destinations gives promise of further major improvement.

The potential for air cargo is very great and every effort will be made to develop this business both at home and abroad.

Given the currently forecast increase in traffic and the reduction of unit operating costs for which the airline will strive, a profit can be anticipated again in 1964.

Flight frequencies and schedules will be tailored to the increasing demand for air transportation. The company is well equipped with aircraft for this purpose and will, in 1964, take delivery of two additional DC-8s. Another Vanguard will also enter service.

No major route extensions are at present contemplated, although the company remains constantly alert to interesting possibilities and it is conceivable that this forecast could change, particularly if present hopes for a better bilateral air agreement between Canada and the United States are realized.

All necessary advance planning and preparation will be made for the introduction of the short to medium range twin jet DC-9 aircraft into service in approximately two years time. The technical staff will continue to evaluate new aircraft types, with special emphasis upon the supersonic equipment that will be available in about seven years. While this major technological development is being viewed by the industry with mixed feelings, it is however a fact

with which the airlines must contend. T.C.A. proposes to be very sure of its own position before any firm decisions are taken.

In a highly competitive international industry T.C.A. will endeavour to maintain the highest service standards, both at home and overseas. The company, now in its second quarter century, has grown far beyond the stature of a domestic carrier and is recognized as one of the world's major transportation organizations. As such it has an obligation to represent Canada well and this will be a common objective of management and personnel. As a major public utility the company is, above all, keenly aware of its duty to provide good service on as wide a scale as is economically practical and at the lowest possible price to its customers.

For the Directors,

G. R. MCGREGOR,  
*President.*

BALANCE SHEET  
as at December 31, 1963

ASSETS		LIABILITIES	
<b>CURRENT ASSETS</b>		<b>CURRENT LIABILITIES</b>	
Cash .....	\$ 5,231,744	Accounts payable .....	\$ 3,059,248
Accounts receivable		Traffic balances payable to other air lines .....	6,851,810
Government of Canada .....	2,277,684	Air travel plan deposits .....	1,782,875
General traffic .....	10,981,380	Salaries and wages .....	1,205,572
Other .....	7,799,793	Unearned transportation revenue	5,031,392
	21,058,857	Interest payable .....	2,430,574
Materials and supplies—at cost less obsolescence .....	20,583,133		\$ 20,361,471
Other current assets .....	566,656		
	\$ 47,440,390	<b>LOANS AND DEBENTURES—Canada National Railways</b>	
INSURANCE FUND .....	5,981,829	Notes payable .....	\$ 55,371,000
CAPITAL ASSETS		Debentures .....	237,471,000
Property and equipment—at cost	\$ 295,945,828		5,981,829
Less: Accumulated depreciation	88,629,005	<b>CAPITAL STOCK</b>	
	\$ 207,316,823	Common stock—	
Progress payments .....	7,251,511	authorized 250,000 shares par value \$100 per share issued and fully paid, 50,000 shares .....	5,000,000
	214,568,334	<b>SURPLUS</b>	
UNAMORTIZED AIRCRAFT INTRO- DUCTORY COSTS .....	1,351,622	Net income, year 1963 .....	527,875
	\$ 269,342,175		\$ 269,342,175
			\$ 269,342,175

This is the balance sheet referred to in our report to the  
Minister of Transport dated February 7, 1964.

MCDONALD, CURRIE & CO.,  
CHARTERED ACCOUNTANTS,  
*Auditors.*

NOTES:

1. Estimated maximum amount of future charges against  
Insurance Reserve arising from major accidents  
in 1963 .....\$ 7,200,000
2. Balance of payments for equipment on order ..... 36,000,000
3. Contingent liability for notes under discount with  
banks in connection with the Pay Later Plan ..... 1,939,000

W. S. HARVEY,  
*Vice-President—Finance,  
and Comptroller.*

## STANDING COMMITTEE

## STATEMENT OF INCOME

OPERATING REVENUES	1963	1962
Passenger .....	\$ 167,653,374	\$ 158,791,609
Express and freight .....	12,247,478	10,463,264
Mail .....	10,942,602	10,561,669
Excess baggage .....	897,568	888,825
Charter .....	5,590,675	1,188,101
Incidental services—net .....	2,058,593	1,579,999
	<hr/> \$ 199,390,290	<hr/> \$ 183,473,467
OPERATING EXPENSES		
Flying operations .....	\$ 42,773,963	\$ 37,796,217
Maintenance .....	39,242,218	38,826,563
Passenger service .....	13,339,644	13,356,686
Aircraft and traffic servicing ...	28,948,231	27,338,845
Sales and promotion .....	29,289,632	27,879,968
General and administrative .....	8,222,727	7,622,699
	<hr/> \$ 161,816,415	<hr/> \$ 152,820,978
INCOME FROM OPERATIONS .....	\$ 37,573,875	\$ 30,652,489
Depreciation and amortization ..	26,305,349	23,257,274
	<hr/>	<hr/>
OPERATING PROFIT .....	\$ 11,268,526	\$ 7,395,215
Non-operating income—net ....	877,862	582,936
	<hr/>	<hr/>
INCOME BEFORE INTEREST EXPENSE ..	\$ 12,146,388	\$ 7,978,151
Interest on loans and debentures.	11,618,513	11,518,776
	<hr/>	<hr/>
NET INCOME OR (DEFICIT) .....	<hr/> \$ 527,875	<hr/> \$ (3,540,625)

## AUDITORS' REPORT

To The Honourable, The Minister of Transport,  
Ottawa, Canada.

We have examined the balance sheet of Trans-Canada Air Lines as at December 31, 1963 and the statement of income for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and the related statement of income, when read in conjunction with the notes thereto, 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, 1963 and of the results of its operations for the year ended on that date, according to the best of our information and the explanations given to us and as shown by the books of the Corporation.

We further report that, in our opinion, proper books of account have been kept by the Corporation and the transactions that have come under our notice have been within the powers of the Corporation.

MCDONALD, CURRIE & CO.,

Chartered Accountants.

FEBRUARY 7, 1964.

## SIGNIFICANT STATISTICS

	1963	1962	Change %
Revenue Passengers Carried			
—Scheduled .....	3,883,590	3,837,491	+ 1
—Charter .....	82,957	27,917	+197
—Total .....	3,966,547	3,865,408	+ 3
Revenue Passenger Miles (000's)			
—Scheduled .....	2,701,899	2,629,285	+ 3
—Charter .....	185,340	30,293	+512
—Total .....	2,887,239	2,659,578	+ 9
Mail Ton Miles (000's) .....	13,859	12,862	+ 8
Express Ton Miles (000's) ....	3,758	3,516	+ 7
Freight Ton Miles (000's) ....	32,023	26,311	+ 22
Revenue Ton Miles (000's) ....	331,114	301,506	+ 10
Available Seat Miles (000's) ..	4,843,790	4,414,895	+ 10
Available Ton Miles (000's) ...	668,394	593,411	+ 13
Revenue Passenger Load Factor	59.6%	60.2%	
Weight Load Factor .....	49.5%	50.8%	
Average Flight Stage Length			
—Miles* .....	363	356	+ 2
Average Passenger Journey			
—Miles* .....	696	685	+ 2
Available Ton Miles per Aircraft			
Hour .....	3,744	3,178	+ 18
Average Number of Employees	11,587	11,907	— 3
Available Ton Miles per			
Employee .....	57,685	49,837	+ 16

\*Excludes charter.

The CHAIRMAN: We now will proceed with the first item, "financial". I would ask for your co-operation in that when we are discussing one item we will not put questions in respect of other items at the same time. As you will note, there are paragraphs in respect of services, facilities and so on which are independent of the paragraph in respect of financial matters. As I say, I hope we will stick to the item in question. The first heading is "financial".

(Translation)

The CHAIRMAN: Mr. Marcoux.

Mr. MARCOUX: Mr. McGregor, I have a question to put to you on the subject of Air Canada's financial organization. Each year we see Canadian National asking a certain amount for their operations and there is always included in these operations a portion which goes back to Air Canada. I would like to know whether this practice will go on indefinitely or if the day will come when the two financial situations of Air Canada and the Canadian National will be entirely separate?

(Text)

Mr. MCGREGOR: I am afraid there may be a misunderstanding about this. Our financial operations are entirely separate; there is no connection whatsoever. There is no money paid by the Canadian National to Trans-Canada Air Lines or Air Canada unless we indulge in new financing, in which case we borrow the money required as capital money, not as operating money, from the Canadian National who, in turn, borrow it from the government. We pay the Canadian National the same interest rate that they are required to pay for the money they borrow on our behalf.

(Translation)

Mr. MARCOUX: Do you believe that this is a procedure which makes things easier for you or is it simply that you want capital sums that you need yourselves to be charged against the Canadian National?

(Text)

Mr. MCGREGOR: I do not know that the system makes the situation any easier for Air Canada. It has been in force ever since the company commenced and, as you know, Air Canada is officially designated as a wholly owned affiliate of the Canadian National. That is, the Canadian National owns all our issued capital stock. It could be done directly as direct borrowings, I suppose, as easily, in which case our budget would be submitted very much in the same manner as it now is. But, basically speaking, I think it is a form of usage that has grown up over the years and has been continued because no one has decided to change it.

(Translation)

Mr. MARCOUX: Because Mr. Gordon told us that transportation companies, for example trucking companies, which were bought by Canadian National operated quite differently; all their assets are completely different from those of the CN and, as a representative of the people, as a member, I feel the people have a right to expect Air Canada to be able to be completely separate from the CN as regards their capital financing.

(Text)

Mr. MCGREGOR: Well, so it is, Mr. Marcoux, completely distinct, except that they act as an intermediary between the government and Air Canada so far as the borrowing of new money is concerned. Trans-Canada Air Lines has borrowed no new capital the last two years. The financing of the two companies is kept completely separate.

(Translation)

The CHAIRMAN: Mr. Grégoire.

Mr. GRÉGOIRE: Mr. McGregor, Mr. Gordon spoke to a considerable extent to us this year about recapitalization of CN's debt. Does Air Canada intend to come to us here this year or in the near future with an idea for recapitalization, or does your amortizement program allow for that?

(Text)

Mr. MCGREGOR: It is a very enticing prospect to write off one's debt, but we do not have any such thing in mind and I do not see the need for it. Our depreciation accruals the last two years have met our capital requirements. This may not always be the case in view of our expanding fleet but, as I say, generally speaking, depreciation accruals will meet our new capital requirements.

(Translation)

Mr. GRÉGOIRE: A few minutes ago you told Dr. Marcoux that Air Canada had done no new borrowing in the past two years. Now, I notice that, in your comparative results, this year you are paying \$99,737 more in interest on loans and liabilities than last year. If you have done no new borrowing, can you explain to us where this increase in the amount of interest to be paid comes from?

(Text)

Mr. MCGREGOR: By the last two years I meant 1963 and 1964. We borrowed no additional capital in 1963 over 1962. This addition of \$100,000 in interest was caused by a temporary loan that was in existence for four months. That made this difference of \$100,000 in interest payments in 1963 over 1962.

(Translation)

Mr. GRÉGOIRE: And that loan has been repaid since when?

(Text)

Mr. MCGREGOR: Yes. At the end of four months.

(Translation)

Mr. GRÉGOIRE: Which means that in coming years the amount of interest on loans and liabilities will not increase.

(Text)

Mr. MCGREGOR: That, I believe, is correct.

(Translation)

Mr. GRÉGOIRE: Does that amount gradually diminish as amortization funds build up?

(Text)

Mr. MCGREGOR: It should decrease if we do not offset the fully depreciated condition on certain aircraft by buying new aircraft. However, I would think the present capital at work in the organization—unless it expands in an unlooked for way—will be adequate; in fact I do not foresee that we will have to borrow new funds this side of 1966.

(Translation)

Mr. GRÉGOIRE: Mr. McGregor, I see that the percentage utilization of seats has diminished this year by 1%, I believe, compared with last year and that it is something like 59%, at least on re-reading the report that is what I thought I had noticed. Now—

(Text)

Mr. MCGREGOR: As I think we have said before, Mr. Grégoire, you and your colleagues are travelling over routes that are fairly well patronized, whereas the depressing of the load factor occurs off the main line routes principally. For instance, this is a system load factor and we may fly a flight from here to Paris, and then to Zurich. There may be 10 passengers beyond Paris to Zurich, and that depresses the load factor in relation to some of the other routes, so does perhaps the route to Val d'Or in the off season period.

Another thing that affects your impression of the size of the loads that are being carried is your tendency, naturally, to travel on Fridays and Sundays because you are going to and from your constituency, which is again over a heavy route. But the over-all system load factor is a somewhat misleading figure because, as I say, it is an accumulation of the bad days and the good days, and on and off peak traffic periods.

(Translation)

Mr. GRÉGOIRE: Now when you call the Air Canada office for reservations it is almost always full unless you call a fortnight in advance. How can you then explain, seats being taken in a percentage of only 59% and 60%, that one has to call two weeks ahead of time to get reservations if they are not filled up?

The CHAIRMAN: Mr. Grégoire, must we confine our discussions to finance?

Mr. GRÉGOIRE: Yes, but there was a mention in the financial review of the number of seats that could be utilized. No, I would prefer to deal particularly with financing.

(Text)

Mr. PUGH: I have one question on the load factor. You mentioned the route from Paris to Zurich. By the rules as set down you cannot pick up passengers in Paris or Zurich, can you?

Mr. MCGREGOR: No, we do not have the fifth freedom privilege, as it is called.

Mr. PUGH: In what countries do you have the fifth freedom privilege, if any?

Mr. MCGREGOR: We have one or two out of Bermuda to other islands in the Caribbean. It is the only one that comes to my mind. There is another one permitted under the regulations but we do not operate the fifth freedom privilege there, it is between Paris and Rome, and no Canadian carrier serves both places.

Mr. FISHER: My first question is addressed to the minister rather than to Mr. McGregor. The only major point in connection with T.C.A. in which I am interested personally is the whole question of the future relationship of T.C.A. and the other air lines, particularly C.P.A., in view of the statement which the minister made. I want to find out, first of all, if the minister intends to be with us throughout the committee hearings, and if he does not, could he indicate whether he plans at this time to make any statement or remarks that might further clarify his position on this whole question?

Hon. J. W. PICKERSGILL (*Minister of Transport*): I would like to make a very brief statement right now, and if I might, sir, I would like to explain that there are some other matters that are just as pressing as the committee meetings—and I do not mean any disrespect to the committee when I say this—which will make it very difficult for me to be here all the time. However, I will be here just as much as I can.

On this question of the relations between the two major air lines, and the related question of their relations with the regional carriers, I think I could give a very brief progress report. I think the members of the committee are aware of the fact, which they learned through the C.B.C., that I met the presidents of the two air lines and their parent companies, and communicated to them three principles, which I do not have at hand, but which I think are well known, and I asked the presidents of the two air lines if they would meet together and discuss these three possibilities. I am only referring to the first of these things at the present time, because it does seem to me that they have to be taken seriatim. My own view is that we cannot settle the relationships between the regional carriers and the two principal carriers until the relationships between the two principal carriers are settled.

Now, Mr. McGregor and Mr. McConachie have had at least two meetings, and another meeting is going on more or less concurrently with the meeting of the committee. I must say I have been quite encouraged by such interim reports as I have received from the committee. When I say I have been encouraged, I mean I have been very much encouraged by the spirit of co-operation and good will that there has been in these discussions, and I believe very real progress is being made. But I do think, in view of the fact that everyone will appreciate that when negotiations are on it is very much easier to negotiate if you do not have the whole world looking at you as though you were in a goldfish bowl, that I would not be helping to achieve the objective that I think we all have in mind if I tried to make any report.

Perhaps I could go on to say that I addressed a letter the other day to the presidents of the air lines—perhaps I should not even have said I addressed a letter because I hope no one will ask me to table it. The only point in it really was to congratulate them on the way they got started, and I asked them if they could make a report to me by September 1. I would hope that that could be achieved. In the meantime, I am rather hopeful that some time in September we can have a meeting with the regional carriers, and then after that, I could

perhaps report something on that. I doubt whether it would be very helpful at this stage to divert our attention from the terms of reference of the committee to this rather speculative field.

Mr. FISHER: I want to make a point, Mr. Chairman. It may be speculative, but some of the questions, for example, that I would like to ask really relate to both these issues in terms of the financial report. I will just ask the minister one last question: Could he tell us whether in the conversations that he had—and which I assume he initiated with the two companies—he went any further than he has indicated publicly?

Mr. PICKERSGILL: No. So far as my position is concerned, what I said to the air lines I have also told parliament.

Mr. FISHER: Mr. McGregor, the last time you were before us you gave us information that indicated which routes of T.C.A. were making money and which were what we have come to call social routes. Can you bring us up to date, informally, on this information? I would particularly like to know whether the routes which, as shown by your cost accounting are not paying routes fit into the over-all pattern of income.

Mr. MCGREGOR: Yes, Mr. Fisher; if I understand your question correctly, the pattern has not changed. Basically, the primary contributors to company overhead are the transcontinental and trans-Atlantic routes. I think I have always said in the past, and in any case I will say again, that I have never felt—with apologies to Mr. Harvey—that the accounting on the Caribbean route properly reflects the situation because, fortuitously, the peak traffic period of the Caribbean route is out of phase with the peak traffic period on trans-Atlantic and transcontinental routes. Therefore, if we were to serve that peak traffic period, domestic and trans-Atlantic, we would have to be equipped and manned to do so and if it were not for the Caribbean, that equipment and personnel would be literally wasting their time in the off-season. However, accounting does not take that fortuitous situation easily into account, so the answer to your question is that with the possible exception of a few routes, mainly transborder, that slide in and out of a break-even position such as Toronto-Chicago and occasionally Toronto-New-York, the only two earning routes are trans-Atlantic and transcontinental and the rest are, if you wish to give them that name, social routes.

Mr. FISHER: Then there has been no marked change in the pattern in the last year in so far as any of these routes are concerned?

Mr. MCGREGOR: That is correct, with the exception that one route—the prairie milk run route—has ceased to be ours.

Mr. FISHER: In the negotiations you are having with the other major air lines, is this question of the role that regional carriers may play, say, in taking over some routes, particularly the ones that are not remunerative, a live topic with you?

Mr. MCGREGOR: No. It has not come into the discussions so far. Our conversations thus far have been confined to areas of transcontinental fare differential, which I like to think is resolved—perhaps I should say that I again think it is resolved because I have previously thought so two or three times in the past, but it did not work out—and reciprocal arrangements with respect to the handling of traffic beyond the borders of Canada where, in the past, there have been inter-line agreements which have not been to the advantage of either Canadian carrier, in principle at least.

Mr. FISHER: In terms of the financial review that you have here, are there any indications that, working with the other major carrier, you may be able to offer any reduction of domestic rates—in other words, as a result of this financial performance?

Mr. MCGREGOR: Not yet. We have not gone a long distance yet. I think the minister is being generous when he congratulates us on the progress we have made; we have made progress all right. So far we have not got to the point at which we can say that our financial situation is better; we have not reached the point at which we can make major reductions in the present domestic fare structure.

Mr. FISHER: Have you reached any decision in your plans for going all economy?

Mr. MCGREGOR: No, we have considered it and we have examined it. We have talked to the air lines in the United States which are trying this. We find surprising differences in opinion as to whether it is a good thing or a bad thing.

Mr. FISHER: In terms of financial income, what has happened with regard to something that has been brought up a number of times in this committee over the last years, the question of putting on a scheduled service on a but type basis in the high traffic routes such as the Germans have done between Hamburg and some other places? The United States have introduced this type of thing, and one carrier has introduced it in Alberta.

Mr. MCGREGOR: Our unhappiness about the non-reserved type of operation, to which I think you are referring and which we did operate between Vancouver and Victoria immediately prior to the introduction of the ferries, is basically that it is very difficult to advise passengers, when one does not know they exist as potential passengers, of any irregularity or interruption of the service owing to weather. This is particularly trying in the coastal areas. So we are not prepared to say that there is nothing in this on high density routes; in fact, I expect the next one on which we will try it will be Montreal-Toronto, a route on which our present schedule is in the order of 23 flights a day. This could probably go on to the non-reserved basis. This is not a very efficient use of equipment, however. It means that practically one has to have equipment standing by against the possibility of a load developing, and we are sufficiently experienced in this business to know that this is almost impossible to predict accurately. Surprising little things will suddenly produce a burst of traffic that is unlooked for, and if one has not the equipment there and one has a non-reserved schedule basis, it is trying for the passengers, and the air line can get itself quite a bad name.

Mr. FISHER: What have you seen as a consequence of the increased competition on that route, for example, of the lower fare structure of the railways?

Mr. MCGREGOR: The so-called red, white and blue fare structure has had a discernible effect on our earnings. We say that with some confidence because it was introduced by sections, and the first place it was tried was east of Montreal to the maritimes; and we certainly noticed a lessening in the rate of traffic growth that we had forecast. The red, white and blue was then extended to transcontinental routes and we thought that once again we did detect a decrease in the rate of traffic growth that we thought we had a right to expect.

Mr. FISHER: When Mr. Gordon was here before us he placed great emphasis on the fact that competition answers with competition. Should this not be an argument for you to reduce your fare structure as against their reduced fare structure?

Mr. MCGREGOR: I do not know, Mr. Fisher. If I read the Canadian National Railways annual report correctly, their passenger traffic increased by 15 per cent and their passenger traffic revenue increased by one per cent. I do not know that this means that it is a good thing necessarily.

Mr. HAHN: May I start with the statement you made, Mr. McGregor, about the so-called social routes, those that are just breaking even, the transborder

routes—Toronto-New York and Toronto-Chicago, and the heavily travelled Toronto-Montreal route. What sort of load factor would you have on these routes?

Mr. MCGREGOR: I think I can give you that exactly.

Mr. RHÉAUME: On a point of order, Mr. Chairman, I am sure many of us have specific questions on specific routes and so on. I am just glancing at the notes other have made. We are hoping to discuss this under service and traffic growth. In view of the fact that we did not read the report completely, however, perhaps you prefer us just to tee off on any section, and if that is so then we are quite happy. However—

The CHAIRMAN: I asked Mr. Grégoire to limit his questions, and he did so. I had hoped that we would limit questions relating to traffic to those which have a direct bearing on the financial situation, but I am beginning to think at the present time that we are asking specific questions that should be left for service and traffic growth. I think that will give everybody a chance to ask those questions, but I see very few questions being asked about the financial situation of trans-Canada airways and, probably, it is the wish of the committee to pass it. Would you mind, Mr. Hahn, if we delayed this?

Mr. HAHN: Not at all. On page 5 under the heading of "Financial" there are certain data which deal with the revenues of the company. This is all tied in with the business of service and traffic growth. If you want to deal now directly with the general financial picture of the company perhaps when we get to service and traffic growth we could refer back to it.

The CHAIRMAN: That is a good idea.

Mr. MCGREGOR: There is practically nothing associated with the company which does not have a financial connotation. About the only time when we tend to go astray is when we are dealing with finances, because everything to some degree is financial.

The CHAIRMAN: Let us try to be financial.

Mr. PRITTE: Have there been any questions about the insurance fund lately? I realize that is not under financial.

The CHAIRMAN: Carried.

[Translation]

Mr. GRÉGOIRE: One last, one more question on the financial aspect. Mr. McGregor, by keeping the maintenance base in Winnipeg, by not moving it to Montreal, what additional expenditures did you incur for the year 1963? For the year 1963 alone, what was the additional cost resulting from your having the maintenance base in Winnipeg rather than in Montreal?

[Text]

Mr. MCGREGOR: The consultant firm which we employed said that the excess cost to T.C.A. to maintain the base facility in Winnipeg was \$1,000,000 a year, approximately.

[Translation]

Mr. GRÉGOIRE: So if that base had been moved to Montreal, you would have shown a profit of \$1,527,000 instead of \$527,000.

[Text]

Mr. MCGREGOR: As a generality, that is probably correct. On the other hand, the company does not feel free to move the base, because it is under a firm commitment to its employees in Winnipeg to maintain the base at Winnipeg as long as it is operating a substantial number of Viscount aircraft. I think it would be very bad personnel relations if we were to break that word.

[Translation]

Mr. GRÉGOIRE: My question related less to the agreements entered into by the company than to its financial results. If that agreement had not been entered into, you would have a million dollars more in profits to show for the year 1963.

(Text)

Mr. MCGREGOR: If the figures are correct, that is a correct conclusion.

Mr. MUIR (*Lisgar*): I have a supplementary question. How did you arrive at this figure, Mr. McGregor, of \$1,000,000?

Mr. MCGREGOR: We did not arrive at these figures. We gave all the data of the company's operations to the firm of Dixon, Speas, and they came up with this figure in conjunction with four different solutions or hypotheses. One was that the base would be closed down and moved from Winnipeg in 1963. That showed an improvement of \$1,000,000 per year over the second, which was one we are fully ready to follow, that the base would not move until 1966. And they went on with two others. One was that the base would not move until 1972, and the other was that a new aircraft type would be put into the Winnipeg base, and that meant something like \$40 million for ten years.

Mr. MUIR (*Lisgar*): I understand that that particular report is under very serious question, so serious in fact that the Minister of Transport tabled an order in council the other day setting up a commissioner to examine among other things the Dixon, Speas report. Do you think it is fair to play around with this \$1,000,000 a year until we have a final report on this thing? I mean, it does not read very well to start with; and if it should be proven that the Dixon, Speas report is wrong, then I think that certain allegations which they have made would certainly operate against the international airport at Winnipeg or its facilities.

Mr. MCGREGOR: I think you are quite right about questioning the advisability of discussing a basic situation that has been submitted to a commission. On the other hand, I have been asked what the figures were. I have not quoted these as being Air Canada figures, but rather as being Dixon, Speas figures, and they are published.

Mr. MUIR (*Lisgar*): As long as the public realizes that these are not Air Canada figures but Dixon, Speas figures, we would not quarrel with you. But we are going to continue to quarrel with them until they are proven to be right or wrong.

Mr. NUGENT: I want to be sure that I understand correctly that we are on finances, and that we can take up later under ramifications and expansion the statement of the minister after the question by Mr. Fisher about an attempt to reach an agreement between C.P.A. and T.C.A. But right now we are on finances.

Mr. PICKERSGILL: May I say a word here. By "later" I did not mean during the course of the deliberations of the committee at this session of parliament, because it does not seem to me that there is anything that Mr. McGregor or I could very usefully add to what I said until the discussions get far enough that some definite conclusions are reached.

Mr. NUGENT: I thought that the minister might like to be here when this matter was discussed.

Mr. PICKERSGILL: I hope we would allow the two companies to carry on their own discussions first.

Mr. RHÉAUME: Did you not suggest that September 1 was the date when you would hope to be in a position to discuss it?

Mr. PICKERSGILL: That was the date I hoped when the companies would be able to report to me.

Mr. RHÉAUME: You would be fair game after September 1?

Mr. PICKERSGILL: I think I am always fair game.

Mr. RHÉAUME: I mean fairer than usual.

Mr. PICKERSGILL: I hope that some of the members of the committee feel as I do, that on September 1 we may be somewhere else rather than here.

Mr. GRÉGOIRE: Where?

Mr. MUIR (*Lisgar*): I would like to finish my statement. I think this probably touches on everything that is financial that we have been talking about at the present time. I would like to get back to the Winnipeg air base at a later time.

Mr. PUGH: My question is, has the air policy of the government been stated publicly at the present time, or are you going to wait until after September 1?

Mr. PICKERSGILL: I thought I had made that very clear. I did tell parliament there were three principles that the government would like to have followed in air policy. We hoped to get the maximum co-operation from the air lines in working out that policy. I found that a good deal of time was going to be needed for discussion between the two major air lines and other discussions with the original carriers before I would be in any position to make any statement of policy. I think the best date we can hope for is some time around September 1—and it may not be that soon, because these discussions are not easy. The two major air lines may be in a position to report to me in September, and I rather hope to have some discussion with the regional carriers. It would certainly be some time after that before any final conclusions are reached.

(Translation)

Mr. GRÉGOIRE: Did representatives from your department attend these meetings?

(Text)

The CHAIRMAN: Mr. Nugent was asking a question.

Mr. PICKERSGILL: No.

Mr. NUGENT: The reason I brought it up was as a courtesy to the minister; he might like to be present when we asked questions dealing with the negotiations between T.C.A. and C.P.A. and with related matters. I wondered if we could go on to that.

Mr. PICKERSGILL: I think Mr. Nugent was not here when I answered Mr. Fisher's question. I am prepared to repeat my answer.

Mr. NUGENT: Yes, I was here.

Mr. PICKERSGILL: I said that I would think it would be a very great mistake for Mr. McGregor or for me or anyone else to attempt to say anything until the discussions adjourned finally, because we would limit thereby the capacity of the two companies to discuss the matter freely; and until they are ready to report I do not think it would be very helpful in reaching any conclusion to have a lot of questions asked.

Mr. NUGENT: I want to clarify the background of the discussion and the basis on which the companies might now be discussing these matters. Mr. McGregor mentioned that so far they are only discussing the four differential interline agreements with the air carriers and so on. The question brought up in the committee before was the question as between T.C.A. and C.P.A. That is, because of the method under which T.C.A. operates—its agreement with the

company, and its relationship with the air transport board, Canadian Pacific Airlines is not on the same footing and does not have the same freedom and flexibility. I would like to ask some questions on that phase at this point. As a background to the negotiations between the Trans-Canada Air Lines and Canadian Pacific Airlines, I gather from the minister's statement that the first point may be in respect of the international route where there may be some degree of co-operation between T.C.A. and C.P.A. with regard to trans-Atlantic carrying. Is that an objective of the discussions?

Mr. MCGREGOR: That is one of them.

Mr. NUGENT: Is another objective of the discussions regularizing the trans-Canada competition between the two companies?

Mr. MCGREGOR: Yes, if you mean by that equalization of fares.

Mr. NUGENT: That is all. Has there been a request made by Canadian Pacific Airlines to the government or to the air transport board that where they are competing with T.C.A. they should be allowed to operate on the same basis as T.C.A.; in other words, instead of being granted a licence to give a certain service between two points, they be allowed to operate much the same way T.C.A. operates; that is, that they be given a licence to service a point, and then work out their own flights as they wish. Is the discussion going to centre around any part of that in an effort to even it up?

Mr. MCGREGOR: Not in my discussions with Mr. McConachie.

Mr. NUGENT: Is it not a fact that T.C.A. operates out of Vancouver with greater flexibility in arranging what flights it wants than C.P.A. does?

Mr. MCGREGOR: Under the ruling of a hearing conducted by the air transport board; yes.

Mr. NUGENT: It is not just under the ruling; it also is covered by the contract between the government and T.C.A. that you are allowed this greater flexibility. The air transport board cannot prevent you doing what you want to do once you have the original licence to service a point.

Mr. MCGREGOR: I would think the powers of the air transport board in the matter of disallowing are complete. There is legislation, I believe, which says that an air line owned and controlled by a surface carrier may operate services only by specific order in council. So far as I know that is the basic restriction on C.P.A.

Mr. NUGENT: Is that order in council administered by the air transport board?

Mr. MCGREGOR: I think they recommend it.

Mr. NUGENT: But T.C.A. operates on an agreement between T.C.A. and the Minister of Transport.

Mr. MCGREGOR: T.C.A. has two route licences across the country. Between them they name the points we serve. No reference is made in either of those licences to frequency of service.

Mr. NUGENT: Does it not also say that if you have three points you are servicing—say Vancouver, Edmonton and Winnipeg—T.C.A. can put on a service from Vancouver to Winnipeg, or stop at Edmonton, if it likes, or service any two or three with whatever frequency of flights it likes.

Mr. MCGREGOR: It does not say; it just names the points. No reference is made to frequency of service. Whether an intermediate point is serviced by all flights operating between two termini is a matter of the traffic flow and the company's decision.

Mr. NUGENT: T.C.A.'s decision.

Mr. MCGREGOR: Yes.

Mr. NUGENT: That same reasoning does not apply to C.P.A. When they apply to the air transport board, they must apply and state specifically the two points and the frequency of service, and they are granted a licence just for that service.

Mr. McGREGOR: I do not think so. C.P.A. is licensed to service a route once a day, Montreal, Toronto, Winnipeg and Vancouver, and so far as I know there is no specific requirement that it not pass up Toronto or Winnipeg.

Mr. NUGENT: That licence calls for once a day?

Mr. McGREGOR: Yes.

Mr. NUGENT: Does your licence restrict you to that?

Mr. McGREGOR: No. We have no frequency restrictions.

Mr. NUGENT: So yours is much more flexible in respect of the use of equipment and so on?

Mr. McGREGOR: I do not know what the term means, but I am prepared to agree if you like. Actually I think C.P.A.'s utilization of its aircraft on its particular routes and the licence they have are exceedingly good.

Mr. NUGENT: The reason I bring this up is you mentioned the flexibility of your company on the Bermuda route, and the fact that the seasonal high is at a different time. The same may apply on your feeder routes. If you are able to vary your service to a greater extent than your competitor, and thus make more efficient use of your aircraft, that gives you more advantage over him?

Mr. McGREGOR: No; definitely not. We are acting as a header tank in this case. They have a specific licence and operate at a high load factor, and we have to take the surges and vacuums in the traffic.

Mr. NUGENT: In Vancouver have you not put in a flight to bracket in the two so that people can go early or late?

Mr. McGREGOR: They, C.P.A., can move as far away from our schedule as they want to.

Mr. NUGENT: Is it not a fact that once they set their schedule to that particular time you changed yours too.

Mr. McGREGOR: No.

Mr. NUGENT: You say that the possibility of being able to use aircraft and have greater flexibility in respect of points served and how you serve them does not give you an advantage?

Mr. McGREGOR: I said that.

Mr. NUGENT: On the trans-Atlantic run has there in fact been any co-operation between C.P.A. and T.C.A., either in respect of commercial regularly scheduled flights, or in respect of chartered business?

Mr. McGREGOR: Yes, there has been quite a lot. For instance, if a passenger comes into one of our offices not well informed and says he would like to fly to Rome, we would tell him he can fly to Rome and we will carry him as far as Paris and make arrangements with another carrier to fly him from Paris to Rome; but we draw his attention to the fact that C.P.A. is operating a through service to Rome.

Mr. NUGENT: Is that the extent of the co-operation?

Mr. McGREGOR: If they want to buy a ticket from us, we are glad to sell it.

Mr. NUGENT: There is no co-operative arrangement between the two companies, having in mind availability of aircraft and exchange of equipment?

Mr. McGREGOR: No.

Mr. NUGENT: Or help with overloads.

Mr. McGREGOR: We do not operate any specific point to point competitive trans-Atlantic service.

Mr. NUGENT: That is my next point. In respect of these charter flights, I suppose there is competition on flights to Europe especially. Would one of the incentives with T.C.A. for people who wish to charter aircraft be the fact that your London terminal is a more attractive place to go than Paris or Antwerp?

Mr. MCGREGOR: No. I think C.P.A. in 1962 operated more charter flights to London than we did.

Mr. NUGENT: They operate there, too?

Mr. MCGREGOR: There is no restriction.

Mr. NUGENT: You do not have any co-operative agreement to take care of a sudden burst of traffic back and forth?

Mr. MCGREGOR: No. I do not see how there could be. We do not operate any parallel routes across the Atlantic.

Mr. NUGENT: I note there is a tremendous increase in the Canadian amount of this charter service obtained, Mr. McGregor. Can you tell the committee how Canada got this better share of this service last year than it apparently did in years before?

Mr. MCGREGOR: I guess you are speaking of 1963 because the same situation is not true of 1964.

Mr. NUGENT: I see.

Mr. MCGREGOR: No. I expect the answer to your question is that many groups in Canada form some of these charter flight organizations specifically for the purpose of taking advantage of charter tariff arrangements, and having been formed in Canada a Canadian carrier would naturally fall heir to the business.

Mr. NUGENT: Is there any difference to the obtaining of that business if a charter flight actually starts at an intermediate point in Canada?

Mr. HAHN: On a point of order, Mr. Chairman, it seems we are now getting away from a discussion of the agreements or possible agreements between T.C.A. and C.P.A. and into the item covering services and traffic, in respect of which I think we agreed to hold our questions for the time being.

Mr. NUGENT: My next question will show that I am in order, Mr. Chairman.

The CHAIRMAN: Mr. Nugent, are you going to keep within the bounds of your original suggestion?

Mr. NUGENT: Yes. I intended to ask whether it makes a difference if these flights originate in Canada, and whether this gives an opportunity for co-operation between the companies in order to make sure that one or the other of the Canadian carriers gets the service rather than a foreign carrier? In other words, do your discussions with C.P.A. involve the problem of co-operation between T.C.A. and C.P.A. in an effort to obtain a higher percentage of trans-Atlantic service for a Canadian carrier?

Mr. MCGREGOR: No. In fact, we have not touched upon charter operations at all in our discussions. This has not been a point of discussion between C.P.A. and T.C.A. These two companies can operate charters between any point in North America and Europe or the United Kingdom in respect of which it has a licence to operate.

Mr. NUGENT: I am looking at the number of charter flights overseas and I see T.C.A. increased from 47 in 1962 to 427 in 1963. I take it from what you have said that this is not the result of any co-operation with C.P.A.?

Mr. MCGREGOR: No.

Mr. NUGENT: I see that the total number of flights for charter carriers overseas is 971 in 1963, so that your company carried less than half. Is there in your opinion any possibility that co-operation between Trans-Canada Air

Lines and Canadian Pacific Airlines will give an increase in the total percentage of charter flights overseas to Canadian carriers?

Mr. MCGREGOR: Not that I can see. The reason for the increase is the fact that there were of the order of three, if not four, additional foreign companies permitted to operate charter flights out of Canada.

Mr. NUGENT: Mr. Chairman, I should like to ask one more question of the minister or Mr. McGregor. I think the committee might better understand the operations of T.C.A. as compared to other private carriers in Canada were we able to see the agreement between Trans-Canada Air Lines and the Minister of Transport.

Mr. PICKERSGILL: To the best of my knowledge there is no such thing. To the best of my knowledge parliament legislated to create T.C.A. and T.C.A. operates under the legislation prescribed by parliament. I have never heard of any agreement between T.C.A. and the Minister of Transport affecting its general operations.

Mr. MCGREGOR: I think, Mr. Pickersgill, Mr. Nugent is referring to a thing called the Trans-Canada contract, and it is stipulated in the Trans-Canada Air Lines Act that there should be such a thing.

Mr. PICKERSGILL: That is perhaps an admission of my ignorance.

Mr. MCGREGOR: I do not know that it is. This is perhaps not that to which Mr. Nugent is referring.

Mr. NUGENT: That is what I have reference to, yes.

Mr. PICKERSGILL: I am afraid I must plead that it has never come to my desk since I became the minister. I have not been educated in that regard. I will endeavour to find out and perhaps answer later.

Mr. NUGENT: I just suggest, Mr. McGregor, that were we to see this document it might be of assistance to us in understanding the situation.

Mr. PICKERSGILL: I do not think there is anything secret about that document.

Mr. MCGREGOR: It is a public document.

Mr. PICKERSGILL: I will be glad to get it.

Mr. MACEWAN: Mr. Chairman, I should like to ask a short question in respect of capital expenditures. I note that the sum of \$28 million was paid as a calculated initial payment in respect of six DC-9 aircraft and I understand they are to be delivered in 1966. Can you tell me what payments were made on them and do I understand that it is the ordinary thing for payments to be made to aircraft corporations to enable you to get priority of delivery in an agreement with the Douglas Aircraft Corporation, for example?

Mr. MCGREGOR: Normally in the purchase of aircraft a percentage of the total cost of the aircraft, per aircraft ordered, is paid on the signing of the contract. In some cases there are interim payments made during the intermediate period, and the balance is paid on delivery of the aircraft, or on final acceptance.

Would you like to know the amounts involved?

Mr. MACEWAN: Yes.

Mr. MCGREGOR: In 1963 we paid \$1,005,000, which is five per cent of the total price of the six aircraft ordered, and in 1964 we will pay a further \$4,224,000 and the balance on delivery in 1966.

Mr. MACEWAN: Thank you. Finally, at the risk of being called out of order, do I recall correctly that in a speech made in Halifax I think this spring, you suggested the DC-9's would be used after delivery, at quite an early date, on the maritime runs?

Mr. MCGREGOR: That is correct.

Mr. RHÉAUME: I should like to question Mr. McGregor in relation to the negotiations with Canadian Pacific Airlines.

The CHAIRMAN: You will be treading on a very narrow path.

Mr. RHÉAUME: Yes, and I am being very careful that my questions are in order. Who is doing the negotiating? Is it being done at top level by the presidents of the corporations?

Mr. MCGREGOR: Following the meeting with the minister in his office, to which I referred, which is generally now called the four presidents' meeting, the same four men met immediately after with the idea of having a preliminary canter around the areas we thought the minister had pointed out to us as spots where he thought co-operation could be usefully explored.

Mr. PUGH: In which one is Northern Dancer?

Mr. MCGREGOR: Following that occasion Mr. McConachie and I met in my office, about three weeks to a month ago, at which time a certain agreement was reached on the points I think I mentioned to Mr. Fisher, and exploratory talks were held in respect of the far more difficult area of co-operation involving the international route pattern. The outcome of that was the agreement that we were not sufficiently familiar with the problem we were discussing and its financial aspects to make very good sense, and we had better turn the job over to our respective traffic experts. We agreed on a date and also agreed on reciprocal venue by virtue of which these two teams are due to begin meeting in Vancouver on June 23, which I think is tomorrow, to continue that discussion.

Mr. RHÉAUME: Thank you. There is one other question I should like to ask relating to financial matters. It may appear to members of this committee initially that my next question is a little out of order, but I should like to read a press article of a month ago which suggested that Trans-Canada Air Lines, or Air Canada, is not financially flexible enough to stay in the running with other air lines. This article was a Canadian Press story from Winnipeg quoting your Mr. Glenn, who is an aircraft evaluation expert with Air Canada, as saying:

—that T.C.A., as a crown corporation, does not have the flexibility which allowed Canadian Pacific Airlines to place an order for three American supersonic planes—

According to your earlier explanation in respect of the DC-9 purchases, this would indicate that you would start off bidding for an aircraft now, sometime even before they are being flown, to stay in the race. Is that a fair statement?

Mr. MCGREGOR: It is not an accurate statement. First of all, no one has actually ordered a supersonic aircraft as yet, least of all the United States-made aircraft, so there has been no orders placed. I think what Glenn was saying was that T.C.A. would be hard put to justify to its directors or anybody else the payment of \$100,000 per aircraft without interest for an indefinite period of time for the sake of obtaining a position on a delivery queue. This is all that has been done in respect of any of the 80 odd American S.S.T.'s, for which that sum has been paid, for a position on a delivery queue. I do not blame Mr. Glenn for saying that. It is true that we have not that flexibility. At least, we do not believe we have.

Mr. RHÉAUME: But is it not a fact that in terms of going from the propeller driven fleet to the total jet fleet Air Canada was in the lead in respect of almost all other world air lines and did you not at that time also have to make payments to get yourself in the delivery queue so that you would in fact be the first world air lines to have an all jet fleet?

Mr. MCGREGOR: Yes, and we included it in the capital budget. We submitted that capital budget for approval before making any expenditures. And, only in one case in the company history have we bought an aircraft that had previously flown.

Mr. RHÉAUME: Do I detect some timidity in what you say and that in fact you are not quite prepared to put yourself in the lineup for S.S.T.'s.

Mr. MCGREGOR: Although there is a lack of knowledge here we know as much about the S.S.T.'s as anyone else does. We have had our chief engineer on the original planning team for the Concorde, which is the French-British version and they are 2½ years ahead of the Americans. This is, in fact, a crystallized design and the United States' S.S.T. is not.

Mr. RHÉAUME: What flexibility is it that you are lacking?

Mr. MCGREGOR: All I am saying is that we dislike the idea of using \$100,000 per copy of the company's money and, thereby, receiving no interest on it, while a design is worked on.

Mr. RHÉAUME: Are you not afraid that this might put you at the end of the lineup for S.S.T.'s?

Mr. MCGREGOR: Not a bit.

The CHAIRMAN: Have you a question, Mr. Pascoe?

Mr. PASCOE: I was interested in these initial payments on the D.C.9. However, Mr. MacEwan put a question in this respect and the answer was given. I would like to put this question. What is the stage of construction of the D.C.9 now, and when do you expect delivery?

Mr. MCGREGOR: The stage of construction is that there is a final assembly jig set up in California. There is a nose section built there and the aircraft components are going into the final assembly jig. There has been at least one, and perhaps as of now two, sets of wings delivered from de Havilland of Toronto to Douglas. In other words, the aircraft, I would say, is about 12 months away from the first test flying.

Mr. PUGH: My question is along the lines of those put by Mr. Nugent. However, in the discussion which took place the word "bracketing" was used in regard to T.C.A. and C.P.A. transcontinental flights. May I ask this question. Who picked the times first, T.C.A. or C.P.A., on the daily flight which leaves Montreal, arrives in Toronto almost on the button; is scheduled to leave Toronto at exactly the same time and arrive in Winnipeg at the same time; leaves Winnipeg and arrives in Vancouver at the same time. Was it T.C.A. or C.P.A. who first picked that time?

Mr. MCGREGOR: I would have to do some digging to find the answer to that one. But, let me explain that both air lines are guided by the same principle: when does the public want to travel most, and the fact we should have close scheduling under these circumstances does not surprise me. We start off with the same basic information and endeavour to serve the same market.

Mr. PUGH: I would be pleased if you could obtain the information as to which air line picked it first.

Mr. MCGREGOR: I think our timetables are dated the same, but I will try to find out that information for you.

Mr. PUGH: I will put it this way. Why is it that that traffic must load at that particular time. Surely it works a hardship on both lines when you start and finish right on the button. There is no question of bracketing on this Trans-Canada Air Line.

Mr. MCGREGOR: No, it depends entirely on the load factors of each flight. If we found ourselves operating at a 61 per cent load factor owing to the close timing we would say perhaps it is better to move off it.

The CHAIRMAN: Would you proceed, Mr. Crouse.

Mr. CROUSE: Mr. Chairman, my question deals with service and traffic growth but I think the answer will be of a financial nature. It states in the report:

In 1963 T.C.A marked its twentieth year of trans-Atlantic service and its fifteenth year of operations to the Caribbean, providing record capacity and carrying record traffic totals on both routes.

Are you giving any consideration to providing a direct route from Halifax through Bermuda to the Caribbean? As a Nova Scotian, I have always felt that we in the Atlantic provinces were, if you will, not receiving the very best service that is obtainable. We must fly from Halifax to Montreal in order to fly to the Caribbean. I am wondering if you are giving any thought to providing this service in the near future?

Mr. MCGREGOR: Yes. First of all, I am no stranger to the question, as I think you know. Second, the answer is not necessarily financial. Bermuda is under the jurisdiction of the U.K. government in respect of bilateral air agreements. We are not today empowered to fly from Halifax to Bermuda. Mr. Nugent feels that we could fly all over the world without obtaining anyone's permission. But, this is not right. We would have to have an amendment to the United Kingdom-Canada bilateral agreement that would specify that right and, unquestionably, Canada would have to pay a price in the negotiations, and probably a long one. So, it is not a question of T.C.A saying tomorrow they would like to do it and to start operating. It is not possible. The matter has been discussed with the chairman of the air transport board who has pointed out with some trepidation he would be fearful of whether the quid would be worth the quo, if I am not talking Dutch.

The CHAIRMAN: Would you proceed with your questions, Mr. Hahn.

Mr. HAHN: Mr. Chairman, I have a couple of questions.

First of all, it is stated in the report that you did not require outside borrowings or additional borrowings last year to finance your capital purchases. What about next year; are you going to be able to continue next year without any additional borrowings?

Mr. MCGREGOR: Yes, this year and next year.

Mr. HAHN: That is, 1964 and 1965?

Mr. MCGREGOR: Yes.

Mr. HAHN: You will need to borrow for 1966?

Mr. MCGREGOR: I am not certain we will have to and I am not certain that we will not have to, and I would like to leave it at that.

Mr. HAHN: My second area of questioning deals with the depreciation procedure. A little farther down the column you state:

This procedure provides for the systematic write-off of each asset over its estimated useful service life, down to a residual value.

In the disposals that you made of aircraft last year did you have to accept a figure which was below the existing value when you disposed of the aircraft?

Mr. MCGREGOR: No, I am glad to say we did not. The reverse was the case in some instances. After querying this, I am afraid I will have to eat some words. We sold a Superconstellation, which is a pretty elderly aircraft, for \$28,000, on which the net book value was \$50,000. We sold another for \$27,000 on which the net book value at the time was \$50,000. We sold a Viscount—

An hon. MEMBER: You are on the record.

Mr. MCGREGOR: We sold a Viscount for \$426,600 and it had a net book value of \$332,372.

But we had to spend \$101,600 to modify the aircraft. So that I think we lost about \$3,000 on it.

Mr. GRÉGOIRE: What is the total?

Mr. MCGREGOR: We sold aircraft of various breeds, types and parts for a total of \$548,522, and equipment, that had a book value of \$847,672.

Mr. HAHN: So that over all you have taken a writedown? As a result of this, are you changing your depreciation policy or your rates at all?

Mr. MCGREGOR: I do not think so. There were a lot of piston engined aircraft sold, and these have a very poor resale market. I do not think this will continue to be true of turbo props, and if we ever get to the point where we are selling full jets, presumably our 12 year depreciation life of the DC-8 will prove to be satisfactory, and that we will meet the 10 years on the Vanguard and the nine years on the Viscount.

Mr. HAHN: You have some Viscounts that I gather are about to be sold. Have you tested the market for those as yet? The market value that you are talking about proves that the book value of the aircraft is roughly equivalent to what you expect to get.

Mr. MCGREGOR: We sold in 1964 three Viscounts for a net increase over book value of \$269,534.

Mr. FISHER: That includes the one which went to TransAir?

Mr. MCGREGOR: That includes three which went to Air Inter, although they probably would not thank me for saying so.

The CHAIRMAN: Any more questions?

Mr. RHÉAUME: I have a supplementary on the sale of aircraft. I do not know where else I could ask it. What is the method used when you are disposing of aircraft? Are they advertised?

Mr. MCGREGOR: You advertise it in the trade magazines, you are then deluged with a lot of people who want an exclusive option to sell it, you refuse those, and eventually it sells.

Mr. RHÉAUME: Presumably the company takes into consideration the best possible deal it will get on the dollar value?

Mr. MCGREGOR: The average man in that business likes to sell the aircraft before he buys it.

*(Translation)*

The CHAIRMAN: Mr. Grégoire.

Mr. GRÉGOIRE: Mr. McGregor, this is a question arising out of the questions raised by Mr. Rhéaume just now, concerning super-jets in the future. Does Air Canada have any options on 'Concord' aircraft?

*(Text)*

Mr. MCGREGOR: No. We have not taken any position on any supersonic at this time. We are talking of aircraft which are certainly not going to be in service before 1972.

*(Translation)*

Mr. GRÉGOIRE: Then, once those aircraft are flying, you have no preferential place for any of them? Do you believe that you are, nevertheless, in a position to face competition at that time?

Mr. MCGREGOR: Yes, I think so. First of all, what these aircraft are going to do, either of them—the U.S. one which has a tremendous question mark associated with it, and the Concord which, as I said before, has a crystallized design at the present time—is very much of a moot question. We have no idea what the governments are going to do. If the supersonic is required to operate

under present curfew laws—I do not know what the translation for that would be—but at the present time we are not allowed to operate the subsonic jet aircraft into and out of Montreal after midnight or before seven a.m. If these regulations, which are based on air to ground noise, continue to be applied to the supersonic, its economics are going to be seriously affected because the only chance of a supersonic making good money is to be able to operate across the Atlantic and back at least twice in a day, which means it is going to operate either out or in during this present curfew period of 12 to seven a.m. However, there is surprisingly little factual information known about what the air to ground noise situation is going to be. The protagonists of the supersonic say it is going to be no greater than the subsonic. Maybe so, we have to be shown, but to tie up company money nine years ahead of a possible service date, with so many question marks attached to the product, we think is not good business.

(Translation)

Mr. GRÉGOIRE: Are the estimates that the 'Concord' will not be flying before 1972 those of BOAC and Aviation engineers?

Mr. MCGREGOR: Yes. Well, perhaps I should say that I do not know too much about the engineering opinion of the air lines; I do know about the manufacturer's, which started as recently as two weeks ago was "service in 1972".

The CHAIRMAN: Is the financial section agreed to?

Mr. PUGH: I have one more question on the phasing out of Viscounts. I take it that by the time the Viscounts are phased out, they will be pretty well written off. The company will not lose money on it.

Mr. MCGREGOR: Yes.

Mr. PUGH: Will you have any that are surplus to requirements, any more sales?

Mr. MCGREGOR: Two aircraft are presently surplus to requirements.

The CHAIRMAN: Is that section agreed to?

We are now on insurance reserve/fund.

Mr. PRITTE: I have just one question, Mr. Chairman. In the last paragraph, under that heading, it says:

However, unless it is possible to increase the annual accrual to an amount greater than the estimated premium cost of outside insurance, the fund will not attain for several years the \$10 million level established by the board of directors.

Is there any suggestion there that you would like to have that amount built up at a greater rate and the board of directors do not agree?

Mr. MCGREGOR: There is no such suggestion there. It is largely a matter of not wishing to put the company into the red in order to rapidly rebuild the insurance reserves because that simply means that the government is building a reserve.

Mr. PRITTE: Where does that amount you put in for insurance each year show in your statement of income? Does it come under flying operations, maintenance, or what?

Mr. MCGREGOR: Yes. We can give it to you exactly.

Mr. PRITTE: I know it is in the report, but I do not see it in the statements.

Mr. MCGREGOR: In 1963 the accrual to the fund was \$3,950,000.

Mr. PRITTE: That is in the report, but your statement of income and expenses does not show it. Does this come under operating expenses?

Mr. MCGREGOR: It comes under flying operations.

Mr. RHÉAUME: Mr. McGregor, just a week or so ago a Viscount ran into difficulty coming into Toronto. Air Canada has no outside insurance coverage,

so that whatever damage there was to the aircraft, which appeared very extensive, will have to come out of your insurance fund, will it not?

Mr. MCGREGOR: Sixty per cent of the craft is insured. We do not know yet what the repair costs of that aircraft will be or whether it will be worth undertaking.

Mr. RHÉAUME: Which is an expensive way to phase them out. The last paragraph of your insurance reserve fund says that the fund will not attain for several years the \$10 million level established by the board of directors. I wonder if you could just explain that. Did the board of directors of Air Canada take a decision that there should be approximately \$10 million available for this kind of coverage?

Mr. MCGREGOR: They did so on management recommendation based on the fact that it is possible, as we have unfortunately proved, to lose a DC-8 in toto, and they were then worth about \$6 million—they are now worth about \$7.2 million. The passenger liability was insured with a deductible of \$1.5 million so it was thought that \$10 million provided a reasonable safeguard against being able to meet the losses associated with a catastrophic loss—such as a DC-8 full of people—of about \$9.5 million. This was the reasoning behind the figure. It is a little ironic that we were just on the point of achieving the \$10 million at the end of last year when the Ste. Therese accident occurred. I would think that if the company did achieve it, it would want to continue with the policy of accruing to the fund what would otherwise be insurance premium.

Mr. RHÉAUME: But no more?

Mr. MCGREGOR: Probably no more. There is not very much point in having a fantastically large fund.

Mr. RHÉAUME: That means, then, approximately three accident free years will have to elapse before you will have built up the fund to the level established by your board of directors.

Mr. MCGREGOR: Yes, unless the insurance policy is changed.

Mr. RHÉAUME: And already one substantial accident has come out of that. Is there any suggestion that management will go back to the board of directors and recommend that the policy be changed, pointing out to them that for practical purposes, unless you show a serious deficit and cut into your other reserves, with complete luck it will require three years to get back to your own level?

Mr. MCGREGOR: Yes. Management has already done so.

Mr. RHÉAUME: Management has suggested that the policy be changed?

Mr. MCGREGOR: Yes.

Mr. HAHN: There have been three serious accidents with T.C.A. in terms of dollar costs as well as of human life in the last number of months. I wonder if you could give us any enlightenment as to the possible cause of the London, Ste. Therese and the Toronto accidents. Is there anything you can tell us?

Mr. MCGREGOR: I would like to begin by saying that you associated human life with the three accidents.

Mr. HAHN: I referred to one only involving human lives.

Mr. MCGREGOR: All I can say is that official investigations under way have not reported yet, and I think it would be wrong for me to try to guess the causes. Nevertheless, I believe I can say that the London aircraft was never airborne and the pilot elected to abandon the take-off attempt at a time when it was impossible to stop the aircraft within the confines of the runway he was on. That I think will probably be found to be the cause of that accident. With respect to Ste. Therese, I have no opinion, and whether or not the department of transport investigation will come up with one or not I do not know.

Mr. GRÉGOIRE: There is no sign of a criminal attempt?

Mr. MCGREGOR: There is no evidence whatever of a criminal act at this time.

The CHAIRMAN: Mr. Hahn, have you finished?

Mr. HAHN: I have one further question.

Mr. MCGREGOR: May I finish answering Mr. Hahn's question? With regard to the Viscount at Toronto, this was a case of engine failure during approach which resulted in the loss of effective power on one side of the aircraft. The aircraft began to adopt a one wing down condition and, frankly, I think it was extremely fortunate that that accident was not more serious than it was.

Mr. HAHN: I have one more question. As a result of the Viscount accident, do you expect to change the amount of insurance or self-insurance or money that you put into the insurance fund this year, 1964?

Mr. MCGREGOR: Not as a result of the Viscount accident.

Mr. HAHN: If the fund went into a deficit position, would you carry it in such a deficit condition?

Mr. MCGREGOR: No. As a matter of fact, there is a letter written by a past minister of transport which says that if the company has in fact accrued to the fund amounts annually equal to or more than the calculated outside insurance premium, the government will underwrite the fund on a temporary basis to the amount that it is in deficit.

The CHAIRMAN: Mr. Grégoire.

*(Translation)*

Mr. GRÉGOIRE: Mr. McGregor, my question bore precisely on Air Canada policy in the matter of building up its own accident insurance fund. Is the company thinking of increasing its reserves above what it would cost if it were to insure with another company for increased accident coverage?

*(Text)*

Mr. MCGREGOR: No, our attitude on self-insurance of hull flight risk has been that if, as in the case of the letter to which I just referred a moment ago, the company is protected against being put out of business by a series of catastrophic losses. Then, on the basis of the theory that insurance companies are not in business for the fun of it, it would be better for us to accrue normally to the fund amounts of money that we would otherwise pay in premiums and thus, if we do not deplete the fund by accidents, we have money that would otherwise be in the possession of an insurance company. That is the basic philosophy we have followed.

*(Translation)*

Mr. GRÉGOIRE: Are there any other airline companies that have their own insurance funds? Do most of the companies have them?

*(Text)*

Mr. MCGREGOR: Yes, and these policies have changed from time to time. For many years B.O.A.C. followed exactly the same policy except they were also, if my knowledge is correct, self-insuring their passenger liability, and for years we have not done that.

Mr. ROCK: Mr. McGregor, what is the average amount of contribution to the insurance fund? According to your report I believe it is around \$4 million a year.

Mr. MCGREGOR: No, last year it was exceptionally high.

Mr. ROCK: So it is not the same amount every year?

Mr. MCGREGOR: No, it has not been.

Mr. ROCK: What financial responsibility has your company to human life? Are you sued by the families of people who have been killed? If you have to pay these people, does it come from the same fund?

Mr. MCGREGOR: No. As I just mentioned to Mr. Gregoire, we have outside insurance. Our passenger liability, which is what we are talking about, has a deductible with respect to an accident. For instance, the next of kin claims arising out of Ste. Therese will be extremely high, I have no doubt. We are insured against that loss except for the first \$1,500,000.

Mr. ROCK: This is private insurance? You are insured with private insurance companies?

Mr. MCGREGOR: That is right.

Mr. ROCK: Suppose these people also have other insurance, for example if the passenger takes a trip and takes out insurance which he purchases at the counter before flight, do you still have to pay the other amount on top of this?

Mr. MCGREGOR: Yes.

Mr. MACEWAN: On this same matter, Mr. McGregor, you have a deductible of \$1,500,000. I understand some writs have been issued in regard to the accident last November and I take it, having regard to the deductible, the legal matters would be handled mostly by counsel for the insurance companies.

Mr. MCGREGOR: Yes, assisted by our claims department.

Mr. MACEWAN: Assisted by your own legal department?

Mr. MCGREGOR: Yes, that is right.

Mr. PUGH: When was the level of this \$10 million in the insurance fund first established?

Mr. MCGREGOR: Offhand I would say it was 1959 or 1960. I do not mean it was at that level. I mean this was determined as the objective.

Mr. PUGH: That was pre-jet?

Mr. MCGREGOR: It was concurrent.

Mr. PUGH: I take it that this thing comes under survey every year and you still feel that \$10 million is correct?

Mr. MCGREGOR: Yes, but we are a long way from it at the moment, as you can imagine.

Mr. PUGH: Yes. You used the term "hull risk" several times?

Mr. MCGREGOR: Yes.

Mr. PUGH: Does that mean the complete aircraft?

Mr. MCGREGOR: Yes.

(Translation)

Mr. MARCOUX: I have another question; you just said that amounts paid for death benefit insurance came from a private company. You pay a million and a half deductible and after that the insurance company pays. Does the million and a half that you have to pay come from your insurance fund or from operating expenses?

(Text)

Mr. MCGREGOR: No, that comes out of the insurance reserve, Dr. Marcoux.

(Translation)

Mr. MARCOUX: You have no form of insurance against damage to aircraft which might be covered with some sort of deductibility by an insurance company? All your equipment is entirely insured right out of your fund—your own insurance fund?

(Text)

Mr. MCGREGOR: They were, in 1963. We are in the process of changing but we are outside of the area of the report.

(Translation)

Mr. MARCOUX: No, it is the insurance.

(Text)

Mr. MCGREGOR: Yes, but only for 1963.

The CHAIRMAN: Mr. Lachance.

(Translation)

Mr. LACHANCE: Under international agreements, is there not a maximum that may be claimed by the carrier at the time of an accident involving death?

(Text)

Mr. MCGREGOR: Yes, there is a convention.

(Translation)

Mr. LACHANCE: What is the amount?

(Text)

Mr. MCGREGOR: There is a convention called the Warsaw convention which at the present time is under severe criticism, but it puts a limit on claims for an international passenger to an amount in French gold francs which works out to about \$8,500.

(Translation)

Mr. LACHANCE: Which means that the legal heirs of a person who is killed or injured in an accident to an Air Canada aircraft may claim no more than roughly \$8,000?

(Text)

Mr. MCGREGOR: Yes. If he is an international passenger.

The CHAIRMAN: Carried.

Mr. MACDONALD: Mr. McGregor, my question comes under the heading of traffic growth and the promotion of good relationship with Canadian travel agencies. If I might put it in context I would describe a situation in Toronto where a sole proprietor carries on business of a travel agent, and indicates that he has whatever authorization he needs from the various international air lines that fly into Canada except that of T.C.A. which has consistently refused to authorize him. The T.C.A. position was that he would have to raise business up to a certain level before he could get their authorization. He said that if he placed T.C.A. in that position he would not get the 7 per cent, and would have to stop eating; whereas if he placed his international business with other air lines he would get the 7 per cent. I would question the wisdom of such a policy, when he has said that he has placed a substantial amount of overseas traffic with other air lines.

Mr. MCGREGOR: I would question the wisdom of it, but I do not know. The selection of agents is a matter which is dealt with by our sales department. I know they are particularly careful not to appoint an agent in an area which we regard as being well covered by other agents. It would be the old business of spreading one piece of pie too thinly over too many. This is regarded as being unfair to existing agents.

Mr. PUGH: Have you a standard or criterion. Do you pick any size for a particular agency that you give out? For instance, would a long established incorporated company stand a better chance than a sole proprietor?

Mr. MCGREGOR: I am sure that a long established or well established agent would have endorsement by T.C.A. But I do not want to quibble with your question.

Mr. MACDONALD: Why would T.C.A. follow this particular policy, when none of the other major air lines I referred to follow it?

Mr. MCGREGOR: I think most of them do.

Mr. MACDONALD: But they do not seem to, in this particular case. It seems to me that there is a further factor involved here. He does not have your authorization. If he did have it he would be entitled to five per cent on the North American traffic. Do you not think that in view of the fact that you are a national air line you should be prepared to broaden the basis on which you extend agencies?

Mr. MCGREGOR: No, not on that account. I do not see why we should conduct ourselves wrongly just because we are national.

Mr. MACDONALD: Thank you.

Mr. PUGH: I have two things. You say under "Service and Traffic Growth:"

At International Air Transport Association conferences T.C.A. played a leading role in efforts to reduce North Atlantic fares. This endeavour has met with a considerable degree of success and the company is convinced that if it had not been for the stand it took, sometimes alone among the international carriers, the fares probably to become effective April 1, 1964 would be at a higher level.

I am contrasting that statement against the next paragraph which reads as follows:

In general, the domestic passenger fare structure was static. Unhappily, the problem of the transcontinental fare differential between T.C.A. and Canadian Pacific Airlines remained unresolved in spite of the best efforts of T.C.A. to arrive at a solution.

It would appear to me that on the international routes you are trying to cut the fare, whereas on the domestic routes you were trying to maintain your rates as against C.P.A. who had already cut.

Mr. MCGREGOR: Well, not quite. If you will bear with me I will go through the history of domestic fares. T.C.A. did cut fares as of January 1, 1961. C.P.A. did likewise with respect to both the economy and first class fares.

From the results that we both obtained it was obvious that these fares had been cut too much. On April 1 of the next year which was 1962, we adjusted our economy fare upwards. C.P.A. decided not to.

The result was that from April 1, 1962, onwards, T.C.A. had a lower first class transcontinental fare structure than C.P.A., but C.P.A. had a lower economy fare. I do not think it is unfair to state that Mr. McConachie still thinks that they are too low.

Mr. PUGH: That they are both too low?

Mr. MCGREGOR: That both of us are too low.

Mr. PUGH: Yes. I have one further question.

I travel on the T.C.A. and the C.P.A. and I notice for instance in Toronto, going from here to Toronto and getting on their transcontinental flight at 9.35 a.m., with both aircraft leaving at that time, that I cannot reserve a seat in the economy in the T.C.A.

Mr. MCGREGOR: You mean a specific seat designation?

Mr. PUGH: That is right.

Mr. MCGREGOR: Can you do so with C.P.A.?

Mr. PUGH: Yes, but I would not want to leave it with just a yes or no. May I point out that:

T.C.A. recognizes that the ultimate test of the quality of its service is the extent to which it satisfies the public.

When I travel I overhear an awful lot of conversation, and one of the points brought out by those who use both air lines is the fact that when getting on to T.C.A. in Toronto you find that about 15 minutes before flight time there is a general shuffle towards the entrance at which you are going to get on, and they begin to bunch up, and there is a bit of bucking in the queue, and when the gates are opened, and entrances made there is a general stampede for the rear end of the aircraft, and people come bursting in looking for either outside or window seats because they do not like sitting in between. That is only natural. I would say that you could improve your service tremendously if you would take seat reservations on economy flights. I am wondering, for instance, whether any of your people who are looking into the betterment of the service have taken the opportunity to go on a C.P.A. airliner?

Mr. MCGREGOR: Yes. I think the quality of the service and the comments of passengers are very carefully studied. I have said previously in the predecessor to this committee that we undertake surveys for this purpose entirely. I think it is a question of where you bunch up, either at the seat assignment counter or at the gate position. I have stamped around in front of the seat assignment counters wondering whether I was going to make a flight, not having had a seat assigned. It is a slow process which has to be done, one man at a time, with a sticker being put on a diagram. It is a question of where the passenger is going to be inconvenienced the most.

Mr. PRITTE: I think Mr. McGregor misses the point.

Mr. PUGH: I am only saying I think this is one place where I think T.C.A. might go ahead and provide a better service. If you are a through passenger going from here to Vancouver, in all probability you will have a minimum of an hour or an hour and a half in Toronto before you catch the next aircraft out. The first thing you do is to confirm and get your seat if you are on an air line which will give it to you. From what I have seen on one air line, I think there is plenty of time to reserve seats. Most people arrive there with at least 20 minutes. If they arrive with only five minutes, of course they will get a middle seat anyway. What I am thinking about is the queue which takes place prior to the aircraft leaving. If I am travelling a long distance, I may wish to come in and read a book while I am waiting, but sometimes I see a queue forming up 15 minutes before a flight. On one occasion an aircraft from Montreal was late, there was a general stampede and it was hot. People talked about this after they got on the aircraft. This is why I mention this to you.

Mr. MCGREGOR: I think this is constructive criticism, and we will have another look at it, especially in respect of connections at Toronto from Ottawa.

Mr. RHÉAUME: If I am not mistaken, when the DC-8 came into service, you had seat reservation even for economy passengers.

Mr. MCGREGOR: I will ask Mr. Benson.

Mr. D. W. BENSON (*Assistant Director, Passenger Service, Air Canada*): Yes.

Mr. RHÉAUME: It seems to me the company may have had some reason for changing it in the light of investigation of what the other air lines are doing.

Mr. MCGREGOR: It is possible. I do know I have travelled both ways, with and without it.

Mr. BENSON: On originating flights at point of departure we allow seat reservations. On flights that go through, at any particular point we can make

as many people unhappy as we make happy, because the people who arrive at a point are unhappy if they are not allowed to move to a better seat. They can become very unhappy and say, "I have travelled further than the people boarding here, and I am not allowed to improve my seat".

Mr. MCGREGOR: For example, at Toronto.

Mr. BENSON: Yes. This very often happens at Toronto.

Mr. PUGH: I only point this out, having been unhappy on several occasions, even on C.P.A. I have got out at Winnipeg and changed my seat. I simply would go down to the desk and say I would like to have that seat; I see it is available. They change the old sticker and slap a new one on and I am happy. With your communications as they are today, surely this is a very simple matter, and is an additional passenger service which, I can assure you, will save you a lot of trouble and grumbling, particularly in Toronto.

Mr. RHÉAUME: My line of questioning relates to an interesting news item which appeared about a month ago to the effect that Mr. McGregor was unofficially in Russia to try to set up an Air Canada link to Moscow. The discussions were described as exploratory and informal in an effort to see whether or not the Russians were interested in a Montreal-Moscow link. Can you tell the committee anything about the results of your trip?

Mr. MCGREGOR: I lost six pounds. I had conversations with Aeroflot. I found they were receptive to the idea of a reciprocal service between Canada and the U.S.S.R. I found they knew all the answers and questions in respect of bilateral agreements. I did not mention any quirks they were strangers to in spite of the fact that they do not have many of their own. I think that is about the end of the things I did find out.

Mr. RHÉAUME: As a result of the discussions and the interest they showed in the possibility, is it your policy to pursue this sort of thing?

Mr. MCGREGOR: Whether or not there is a bilateral agreement between the U.S.S.R. and Canada is a matter for the governmental authorities and not for McGregor. I accompanied a group organized entirely without benefit of government blessing, primarily to find out whether the ground appeared to be fertile from the standpoint of the U.S.S.R.'s attitude of mind. I think it accomplished that. It left me in considerable doubt whether or not such a service would be economically sound. No air line in the U.S.S.R. has a business office. All traffic is generated through Intourist. This means that the passenger is given to a foreign carrier by courtesy of Intourist. This may work; I do not know. It was fairly strange to my experience to be completely dependent upon, shall we say, the generosity of a governmental authority with regard to the proportion of traffic you might attract.

Mr. RHÉAUME: I have another line of questioning, but I realize it is almost six o'clock.

The CHAIRMAN: We will adjourn until eight o'clock.

(Text)

#### EVENING SESSION

The CHAIRMAN: Order. I have on my list of questioners the names of Mr. Fisher, who is not here, Mr. Prittie and then Mr. Lachance.

Mr. RHÉAUME: Pardon me, Mr. Chairman, I was in the middle of my questions at the adjournment.

The CHAIRMAN: I am sorry, I did not notice you here, Mr. Rhéaume, and that is unusual for me.

Mr. RHÉAUME: I am very faithful in my attendance.

Mr. MCGREGOR: Mr. Rhéaume, would you permit me to interrupt you?

One or two questions were asked before the adjournment which I believe I can answer now although the people who asked them are not here at the moment. Would you like me to answer them now?

The CHAIRMAN: Is it the wish of this committee that Mr. McGregor answer those questions at this time?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Yes, go ahead.

Mr. MCGREGOR: The first question was asked by Mr. Pugh. He asked which was first, T.C.A. or C.P.A. scheduled out of Toronto at about nine o'clock in the morning. Inquiries would indicate that we have had a flight out of Toronto westbound in the morning between varying times from 8.30 to 10.15 since the days of the North Star service.

Secondly, the present flight that leaves Toronto at nine o'clock is not a proper transcontinental flight but only goes to Winnipeg and there it stops.

The second question was asked by Mr. Nugent in relation to the trans-Canada contract. I should like to read a little bit of the legislation into the record.

As I mentioned, to the minister's apparent astonishment, the Trans-Canada Air Lines Act, reference to which is chapter 268, of the revised statutes, 1952, an act incorporating the Trans-Canada Air Lines, short title, Trans-Canada Air Lines Act, 1937-C-43-S-1, and paragraph 15 says:

The governor in council may authorize the minister to enter into a contract with the corporation (to be known as the Trans-Canada contract) for the organization, operation and maintenance by the corporation of lines of aircraft (to be known as the Trans-Canada Lines) for the speedy and efficient transport of passengers, and goods across Canada—

The first contract in accordance with that authority was completed on June 1, 1937. It was executed on February 4, 1938, and revised in 1946. The reference to that I have in the form of an office consolidation which says:

This office consolidation, which has been prepared by the office of the president of Trans-Canada Air Lines for general information—Trans-Canada contract dated May 4, 1946, as amended by contract dated April 18, 1950 and by contract dated September 1, 1955, also by periodic orders in council.

The effect is that the company does business by virtue of the existence of the Trans-Canada contract which has been authorized by an act incorporating the Trans-Canada Air Lines and, as an aside, I think I should add that from our standpoint it is a favourable document because it instructs us to operate the air line efficiently and this we do our best to fulfil.

In any event I hope that answer will supply Mr. Nugent with the information he desired.

I am sorry to interrupt you, Mr. Rhéaume.

Mr. RHÉAUME: Mr. Chairman, I should like to ask several questions in relation to a particular regional run in operation between Calgary and Edmonton. Before I do so I should like to explore Mr. McGregor's comments in respect of the difficulty of providing an equivalent air bus service between, for example, Ottawa and Montreal or Montreal and Toronto, which was the example he used, involving the use of backup equipment which, as he suggested would be an uneconomical use of such equipment. I am wondering how that statement

can be squared with the fact that Pacific Western Air Lines experience in the Calgary-Edmonton run which I have gathered, from talks with officials of that company, is indicated to be a very happy affair as a new method of transporting people. It is apparently satisfactory to the company and certainly provides a satisfactory service from downtown to downtown. Those officials claim they have never had any difficulty at this specific point. They have indicated they have come very close to having difficulty by being booked right to capacity but have never exceeded it.

Mr. MCGREGOR: My only comment is, I guess, they are either unfortunate in the volume of traffic or fortunate in the fact they have not bumped into difficulty. However, if an air line sets itself up as being prepared to handle anything that turns up, as is obviously required, and it finds it cannot do so it would be extremely embarrassing and unsatisfactory to passengers who were left behind. I think the business of downtown to downtown service is, of course, related to the airports that are being used, and as you know the airport at downtown Edmonton is not being used by our air line.

Mr. RHÉAUME: In terms of passengers I think their experience has certainly not been one of a lack. I believe their record stacks up extremely well in terms of their services from Edmonton to Calgary, and they have every reason to believe in fact that they have generated new traffic. If they have hurt anyone they have hurt the people who would normally drive down. I am wondering whether studies in fact have been made of an equivalent type of air bus service between Ottawa and Montreal or Montreal and Toronto.

Mr. MCGREGOR: Such a study has been made every year for the last six or eight years, and this is the type of service which has been in operation between Boston and New York and even between New York and Miami for a long, long time. I think if anything our introduction of the ReserVec system probably postponed, if not delayed indefinitely, the introduction of such a service by T.C.A. because virtually we can make reservations with the ReserVec service without any additional work load. I would quite frankly say it is just luck if the load related comfortably to the capacity of the aircraft that was operating at 8.30 or whatever time it was operating.

Mr. RHÉAUME: I hope you will correct me if I am wrong, but I think that is exactly what they offer and if there is a greater load than they have capacity for they are ready to charter an executive aircraft to handle that extra capacity. I am sure it would knock hell out of the profit if that happened very often, but that is their backup, using other aircraft available in the area.

Mr. MCGREGOR: I see.

Mr. RHÉAUME: I am wondering whether the new catchy service indicated by the 119 mile and 119 minutes Ottawa to Montreal as phrased by the C.N.R. has cut into your regular Ottawa to Montreal service, or do you know?

Mr. MCGREGOR: I do not think it has.

I have just had a note passed to me drawing my attention to the fact that Pacific Western Air Lines has dropped its Saturday and Sunday flights between Edmonton and Calgary.

Mr. RHÉAUME: What would that fact indicate to you?

Mr. MCGREGOR: I would guess this has been done because of the lack of traffic.

Mr. RHÉAUME: That answer leads me logically to my next question. Is Air Canada or Trans-Canada prepared to consider negotiating itself out of the Calgary-Edmonton run which is now being serviced by larger aircraft?

Mr. MCGREGOR: I would not think so. As a matter of fact, during all the discussion about the prairie milk run it stood out as the one leg that was financially satisfactory. Furthermore, we must maintain and provide connection

between Edmonton and Calgary so far as transcontinental operations are concerned because, as you know, some go through Calgary and some through Edmonton. We provide a very much better service to transcontinental passengers by moving between the two major airports.

Mr. RHÉAUME: So that when you were withdrawing from prairie service, for instance, you did so in principle because of the configuration of the rest of your fleet, and you desired to get rid of certain equipment which was not going to be used at these other airports, or was it simply because you were losing money? I notice at page 9 of your brief the statement that because of the poor aspect and so on you negotiated a transfer to Trans Air.

Mr. MCGREGOR: This withdrawal was necessitated because of the capacity of the airports in relation to the size of our aircraft, and we were eventually thrust into the position where we were operating two orphan DC-3's because they were the only aircraft that could get into these airports. At that time we held no hope that these runways were going to be increased in bearing strength and runway length to accommodate the Viscount, and we must have said dozens of times during those hearings that while we admitted freely the air line economically is not prepared to continue to operate it, if anyone would make the airports available to our aircraft, we would.

Mr. RHÉAUME: And, you would want to keep these even short runs that are returning \$1 for two reasons, first, because of money and, therefore, the economics of it and, second, you need them as a feeder. Is that a fair statement to make?

Mr. MCGREGOR: Yes, that is a fair statement.

Mr. RHÉAUME: There are two major reasons.

Mr. MCGREGOR: Yes.

Mr. RHÉAUME: Would you agree on the basis of last year's experience that T.C.A. is too big for short hops.

Mr. MCGREGOR: Well, 40 odd per cent of the total operations of T.C.A. is short hop, so we are not too big for it.

Mr. RHÉAUME: I am speaking of the press statement, not that you did not guess, quoting a minister of the crown to the effect a regional job cannot be done by a national organization such as Trans-Canada Air Lines. I am putting this to you, on the basis of the year which we are studying, the revenue your company received from short runs and the kind of performance and service you offered, is this true?

Mr. MCGREGOR: No. It is a pity he is not here. I disagree with that statement entirely. As a matter of fact, when the prairie milk run contest started there was not one regional type carrier that had not required a subsidy as big as our declared deficit on that run. So, I do not think that in that type of operation they are a bit more efficient than we are.

Mr. RHÉAUME: I will have to wait until we reach "outlook" before I put any other specific questions. But, your experience is that you too are able to do the regional job as efficiently as they did it.

Mr. MCGREGOR: Just as badly as they do.

Mr. RHÉAUME: Or, just as well.

Mr. MCGREGOR: Yes. That is our experience. Now, do not miss this point; when the operation is of a character that does not fit our smallest aircraft then we are in real trouble, as we were on the prairies, where we had to continue to operate D.C. 3's which, seat milewise, are about as inefficient as anything we know. And, furthermore, when you get down to two aircraft of a type in a fleet you are in serious trouble.

Mr. RHÉAUME: I am accepting at face value your statement that if it comes to a contest you can operate Viscounts or Vanguarders in any one area, taking into consideration the size of Air Canada and the fact it is an international air line, in such a way that this does not prevent it from doing regional jobs.

Mr. MCGREGOR: I contend that very strongly.

Mr. RHÉAUME: On page 11 you make the statement:

In general, the domestic passenger fare structure was static. Unhappily, the problem of the transcontinental fare differential between T.C.A. and Canadian Pacific Airlines remained unresolved in spite of the best efforts of T.C.A. to arrive at a solution.

I want to ask you if the proposals you were making to C.P.A. at that time involved both of you charging the higher rate on the economy and first class fares, and what were the offers if you were going to resolve this. Were both to go up to the higher of the two.

Mr. MCGREGOR: The offers were that C.P.A. would meet us, that we would meet C.P.A., and that we would meet half way on both fare differentials. They would bring down their first class fare half way to ours and we would move up our first class fares half way to theirs and vice versa with economy. The C.P.A. reaction to that was that "if we are charging the same fares at your level, which we think is the lesser of two evils, we will lose some traffic and, therefore, money. If you come down to our fares, we will drop another 10 per cent. We do not like the midpoint because it has all the bad features of both solutions; not only is the fare level lower but also we are equalized."

Mr. RHÉAUME: Well then, it says here words to the effect that your efforts met a stone wall.

Mr. MCGREGOR: Up until two or three weeks ago.

Mr. RHÉAUME: The plot thickens. This would be in respect of the axe that is being lowered. Would I be correct in assuming that the outlook may be getting considerably brighter than has been the case in respect of your past year's experience?

Mr. MCGREGOR: I would like to think so.

Mr. RHÉAUME: Who was handling these talks in 1963?

Mr. MCGREGOR: Up to the moment, Mr. McConachie and myself in 1964. I beg your pardon; you asked who was handling these talks in 1963. In 1963 it was a team from each of the two traffic departments and its vice presidents.

Mr. RHÉAUME: You said in reply to an earlier question that it would be you and Mr. McConachie pretty much who were managing the negotiations currently.

Mr. MCGREGOR: Currently, but changing tomorrow, I should add. I think I did talk about the traffic teams meeting in Vancouver on the 23rd.

Mr. RHÉAUME: I will pose one more question to you and I would like to get your comment on it. This will be my last question. As you probably are aware, members of parliament have identification cards which allow them to travel for nothing on the railways. Has there ever been any consideration given by your company to some method whereby inasmuch as the aircraft has replaced the train for purposes of transcontinental travel, at least the same sort of thing might be advisable, not only from the point of view of getting your legislators across the country but from the point of view of consolidating the real value and the impact that your travel is making. Have you given any consideration to that?

Mr. MCGREGOR: Well, Mr. Rhéaume not only was consideration given, which I do not think was an air lines consideration particularly, but an arrangement was put into effect four or five years ago under which each member of

parliament was to be given through the Speaker, a round trip pass and, if there was a second session in the one calendar year, a second pass, with a third one being a question mark, between Ottawa and the nearest airport to his constituency. Then on many occasions in these committee hearings were discussions about travel on a space available basis; this I quarrelled with very strongly because the idea of confronting 15 or 20 members of parliament on a Friday evening at the airport here with a flat turndown did not appeal to me.

This seems to me to be looking for trouble. So a great deal of thought and some experiment have gone into that area.

Mr. RHÉAUME: But the sort of thing that you are suggesting falls an awful lot short of a person getting on a train or on a plane and presenting a pass. There is quite a bit of difference between having a specific pass that you have to sign and carry with you and making all the arrangements, and just having to get a travel warrant. I am suggesting to you that if in fact the air lines are going to compete with other forms of transportation, this is the sort of thing that should be presented, I would think, to the Speaker, T.C.A. not necessarily picking up the cost.

Mr. MCGREGOR: I could not agree more. Each time it was discussed I have said something like this. The running of the country is probably the most important business that we know of, and I do not know of any business that does not provide its officers with free transportation for business purposes. I have always felt this way, and I am all for it.

Mr. RHÉAUME: So that from your company's point of view it would not be you who are standing in the way?

Mr. MCGREGOR: Certainly not.

Mr. RHÉAUME: You are probably aware that under the new legislation passed last fall members of parliament are entitled to get economy air fare passes on request, or at least travel warrants on request. This, of course, is quite different from being able to travel, say, anywhere in Canada. But from your point of view, as an operator of one of the world's major air lines, you would like to see this sort of traffic developed on your system, would you?

Mr. MCGREGOR: Revenue traffic?

Mr. RHÉAUME: Under the same arrangement as on the railway. If a member of parliament gets on the railway, would he bring in revenue or not?

Mr. ROCK: They do not bring in revenue.

Mr. RHÉAUME: You would not be anxious for this sort of traffic if it did not bring revenue?

Mr. MCGREGOR: That is right.

Mr. HAHN: Mr. McGregor, I would like to look first of all at the domestic travel picture last year. According to the report the indications are that the North American passenger growth was less than two per cent. In looking at the report of the United States companies—I have the T.W.A. report—I see that the improvement was largely due to sharply increased load factor with a six per cent increase in the domestic seat mile figure. What difference is there between Canada and the United States?

Mr. MCGREGOR: They are always between 2½ and three years ahead of us in these trends. We are beginning it this year.

Mr. HAHN: So that we are catching up?

Mr. MCGREGOR: They caught the red figures considerably sooner than we did with the serious drop off in traffic, and their recovery was correspondingly ahead of us.

Mr. HAHN: My next question deals with overseas traffic. I could not find in the report any specific reference to your scheduled overseas traffic, whether

or not it increased. Certainly your charter traffic increased eightfold, and it is now a third of the total Atlantic passenger traffic. Was your schedule passenger service, transoceanic up or down, affected by the charter travel?

Mr. MCGREGOR: In 1963 it was not very encouraging, if I remember. The revenue passenger miles, which is the best indicator, in 1963 over 1962 were up 2.1 per cent. Again, this year it has been very much better, as one would expect with the reduction in fares. I should point out, with respect to the North American growth, that we were dealing with differing tariffs and we had a tremendous growth in 1961 when we reduced the fares, and that automatically slowed down the relationship to succeeding years. For a true comparison on what is happening to the travel habits you should have left the fares alone.

Mr. HAHN: My next question is: Do you keep any figures on your percentage of share of traffic in competition with other carriers?

Mr. MCGREGOR: Yes.

Mr. HAHN: If so, what is happening to Air Canada in the North Atlantic? Are you holding your share of the industry or are you gaining or losing?

Mr. MCGREGOR: I think we are losing. Perhaps it is not surprising because there have been about three other carriers put on the route. In 1963, T.C.A. had 53.4 per cent as a load factor. In 1962 it was 53.8 per cent, so we lost .4 per cent.

However, you are asking another question. I think we have the percentage of the total. Westbound T.C.A. has 34.9 per cent of the total; eastbound it has 36.5 per cent, which probably means that the nationals of Canada are more apt to go by T.C.A. than other lines.

Mr. HAHN: Does this include your charter traffic or just your scheduled traffic?

Mr. MCGREGOR: Charter is excluded.

Mr. HAHN: What share of the charter business are you getting?

Mr. MCGREGOR: In 1964 I think our share is down because, frankly, we are short of two DC-8's that we would otherwise be operating.

Mr. HAHN: I have one other question that is unrelated and which I started to ask under "financial" but maybe it fits in here. It deals with load factors. On your hauls to Montreal, Toronto, Ottawa, trans-border flights to New York, Chicago, and on all those specific flights, those heavily travelled areas, do you run a pretty high load factor?

Mr. MCGREGOR: It varies, of course. I will give you the figures: Seattle is low, 46.6; Cleveland is 54.4; Chicago is 64.7; Toronto-New York is 66.7 per cent; Montreal-New York is 64.9; Boston-Halifax is 58.5. The average for the total is 64.0.

Mr. HAHN: When you get up around the 60 per cent factor on these flights are they profitable?

Mr. MCGREGOR: Generally speaking they are. You say 60 per cent; on these short ones I would prefer to say 65 per cent as being closer to a break-even operation.

Mr. FISHER: I want to bring up, first of all, an issue that Mr. Cowan has raised in the house in connection with the limousine service at Toronto airport. I know it is not your responsibility, but Mr. Cowan is anxious and he is interested, just as I am, in having an opportunity for passengers to pick up the taxi service there. My reason is twofold; one is that I think it gives a cheaper service—in fact I know it does—and also, in my experience, it is a handier service. As far as I am concerned, the same situation prevails in Montreal. I

have often felt that the taxi service is much cheaper and it is more competitive. Is there any contribution that T.C.A. can make to this particular investigation in so far as a recommendation is concerned?

Mr. MCGREGOR: My understanding of the situation is that taxis may operate to the airport, but under the Department of Transport regulations they may not cruise or park at airports. The only contribution I can think of would be for us to make recommendations to the D.O.T. that we think the interests of our passengers would be better served if public taxis were available at the airport. This is an area that I do not like to get into because there are rules about using provincial highways between airports and city limits where taxis have to have provincial licences, and it is pretty darn tricky.

Mr. FISHER: The question I am interested in is in getting cheaper service for the travelling public than they get from the limousine service. Some limousine services at airports are pretty marginal operations, although they are not at major airports, and I do not see why you can get a taxi into an airport or out of an airport for \$5 while you pay up to \$8 or \$9, depending on where you are going, Toronto or Montreal, for a limousine service. I do not see that the quality of the service is so much better that it warrants such a difference. I am curious to know where T.C.A. stands on this thing because it seems to me, in terms of the traffic service, it is still part of your responsibility.

Mr. MCGREGOR: Inasmuch as it is part of the welfare of the passenger in getting from A to B, we are very interested in it. I do not know that there is an awful lot we can do in this area unless the city limits extend to the airport; and then the provincial highway angle goes out of the window, I suppose. Would you like to comment on Ottawa? You must have had fair experience here.

Mr. FISHER: I think the same thing applies to Ottawa.

Mr. ROCK: Take Montreal.

Mr. FISHER: Montreal and Toronto seem to me to be the two places most concerned.

Mr. MCGREGOR: I know Toronto has a zoning arrangement that gets darned expensive when one gets northeast. I would ask Mr. Benson if the same thing applies in Montreal.

Mr. BENSON: I do not believe so with respect to the Montreal taxis.

Mr. MCGREGOR: We are thinking about Murray Hill.

Mr. ROCK: They are very expensive compared to the other taxis.

Mr. FISHER: They have both the air bus and the individual services which in effect are taxi services. It is the taxi service in most cases about which I am really complaining rather than the air bus service.

Mr. MCGREGOR: I think we must say that with an agreement with an organization such as Murray Hill it is unlikely that there will ever be periods when there is no service. I do not think I have ever arrived at Dorval at a time when there was no Murray Hill vehicle there. This requires a certain amount of equipment and standing by, and if one were completely dependant upon the meter, catch-as-catch-can taxis one would find there would be no vehicle there at one o'clock in the morning and so on.

Mr. FISHER: I was looking at it from the point of view that with competition we might get the fee down.

There is another point in connection with the airport services for travellers that I would like to mention. The Department of Transport has recently—I think within the last 18 months—brought in a new arrangement with U-drive cars. Formerly at smaller airports there was a flat fee but they have moved into a percentage of the gross. Here again I wonder whether T.C.A. has any views upon this from their experience. I look upon these U-drive services as very

much an auxiliary part of air travel; I do not like to see anything that puts up the cost. That is one reason why I object to this. I wonder if you have made any study of the number of passengers who have used U-drives and, if so, whether there cannot be any concerted way of keeping all these fees down.

The reason I raise this point, as you probably know, is that a number of new firms have started in the U-drive field and are offering cars at as low as 60 per cent of the going fares of the big three in Canada. However, it is difficult for these new people to get into airports because, again, of the percentage of the gross and the requirements for fairly large staffing. I do not want to undermine the position of Hertz, Avis or Tilden, but if there were more competition in U-drive services to the airports it seems to me that travellers would get a better bargain.

Mr. MCGREGOR: I am no expert on the U-drive subject and I do not think we would have any record of the number of our passengers who get off an aircraft and go to a U-drive counter and hire a car. I do not see just how we might get that information, but I know perfectly well that the arrangement between the Department of Transport and the taxi companies—the contract taxi companies—is based upon a percentage of the gross. All I can hope is that it is not as expensive for them as it is for us to do business at terminals.

If I am not digressing, Mr. Chairman, I would like to quote some figures here. Montreal, Toronto, Winnipeg and Edmonton have all recently had large new terminals go into effect. Our annual rental charges at Dorval are \$301,000 per year for space in the terminal; at Toronto, \$304,000; Winnipeg, \$147,000; Edmonton, \$43,000. Then there is another little device called a user charge; this is new. This is for the privilege of moving passengers through the terminal as distinct from the space that we rent. At Montreal it is \$148,000; Toronto \$235,000; Winnipeg, \$47,000; and Edmonton, \$30,000. The total of those four places is \$1,255,000 a year plus landing fees of \$3,463,000 at those four places. All this stacks up against a pre-new terminal total charge of \$168,000 for rent, plus landing charges.

Mr. ROCK: That is because it takes longer to walk now!

Mr. MCGREGOR: That is right!

Mr. FISHER: Have you heard anything about any likelihood of introducing or any talk of introducing what one encounters at so many European airports, a specific user charge paid by the passenger?

Mr. MCGREGOR: No, I do not think that head tax idea has been thought about here.

Mr. FISHER: In effect, you are paying the head tax in the user charge. I would like to suggest in this area of transportation to and from the airport, and the whole question of baggage facilities, that in the one the cost could be cut down and in the other the service could be improved, particularly in time, in most of the places in which I have been. I would appreciate it if the next time you come before the committee you could give us some indication that you have looked at this to see if there is anything T.C.A. can do toward decreasing the cost and shortening the time.

Mr. MCGREGOR: Yes. I do not know about the cost, but I think I should say that in the matter of time our sad experience has been that the less modern the facilities the faster the baggage handling time. In fact, I believe Montreal was down to an average baggage delivery time to something like 4½ to 5 minutes until the new terminal came into being, and I guess it is close to 10 minutes longer than that now. Some of this is due to automation, which is not an unmixed blessing.

Mr. FISHER: I do not know whether this is the place to bring up this matter, but I would like to ask you something about the TransAir deal. I would like to know what the value was of the Viscount that exchanged hands.

Mr. MCGREGOR: It was some proportion of a dollar because the dollar covered the Viscount and two DC-3's.

Mr. FISHER: What was your book value?

Mr. MCGREGOR: I would think something in the order of \$220,000.

Mr. FISHER: As you probably know, the government air line in Saskatchewan has had communication from one of the officials who was not so much critical of Trans Canada Airlines' role in the deal but suggested that if that particular kind of arrangement that actually developed had been offered or had been open to the other carriers who were interested there would have been a great deal more interest in the matter. I just wondered whether T.C.A., at the time the deal was being worked out, initiated any discussions with any other carrier.

Mr. MCGREGOR: I do not think we initiated any. We were convinced that TransAir was in a better position to operate those routes and for some reason, somewhat to our surprise, they seemed to be more interested in it. At last year's committee, as you may remember, Mr. Fisher, I said I thought this was one of those happy associations where everybody seemed to be content. However, it turned out that the contentment of TransAir did not last very long. It was not many months old before they applied for authority to abandon the western half of the southern so-called prairie milk run, and were so authorized.

Mr. FISHER: Where does the responsibility lie if such an arrangement should break down in so far as the value of the transaction that was involved is concerned in getting out of that particular operation? You gave certain considerations to TransAir. Now, TransAir undertook certain obligations. TransAir has pulled out of part of those obligations. What does this do to the value of the transaction that you entered into?

Mr. MCGREGOR: It really does not do anything. The commitment of TransAir was to operate the route, or the two routes as we then knew them, or such variation thereof as was authorized by the air transport board. So TransAir very naturally has protected themselves against any accusations of being in default of the contract by seeking authority from the air transport board to abandon the route west of Regina. They got it and did it quite legally and legitimately. This left T.C.A. lacking an operation that was costing us \$300,000 a year. This we could afford to be without.

Mr. FISHER: I think it was good business from T.C.A.'s point of view. But I was curious about the value of the transaction and the role T.C.A. might have played in it.

Mr. MCGREGOR: We had no idea—despite the fact that we had revealed our traffic figures completely to Trans-Air—we had no thought in our mind that they might discontinue part of the operation. I do not think they would have done it if they had not been given an idea by the fact that one of the airports went out of service automatically because of spring conditions. So they said at the air transport board:— "We cannot operate into these places", and the air transport board said that they understood. This may have given them the idea to apply officially for the cut-off.

Mr. FISHER: You are a government corporation operating very much like a private corporation. You enter into arrangements approved by a government board for which you give certain values to protect the corporation in return for a release from an obligation. The carrier does not live up to the obligation, and the air transport board O.K.'s it. And the value, the consideration, let us

say, that led to the original deal so far as those of us in parliament can see, is completely left out of account. There was no seeking or direction from any public interest.

Mr. MCGREGOR: I do not think there ever was going to be. But we had applied to have abandonment of the whole route. I do not think that the air transport board could have gone on forever denying us that right, because they were in a very embarrassing position. They did not provide airports capable of handling our aircraft. We were losing money, and they could hardly insist and say you must continue to operate. I do not think so. I think that the communities along the prairie milk run, so called, are better off with what service they are getting, which is between Winnipeg and Regina, and Regina to the north.

Mr. FISHER: I cannot pin the responsibility on T.C.A., or tie it in to the contract that was entered into. Was there any discussion about putting a rider in the contract that there would be a return to T.C.A. of some of the equipment, if TransAir did not live up to the contract?

Mr. MCGREGOR: Yes, the penalty was \$500,000 payable by TransAir to T.C.A., as it then was, or a proportion thereof if they abandoned the operation. I do not think that they or we thought of the penalty as a condition of partial abandonment.

Mr. FISHER: What has happened to that clause? Has it been affected?

Mr. MCGREGOR: They have done nothing contrary to the contract. It also says that they must operate in accordance with the authority of the air transport board.

Mr. FISHER: So if we are going to pin any responsibility for the fact that no money came back to you, it would have to be pinned on the air transport board?

Mr. MCGREGOR: I think it would be more true to say that if you tried to pin responsibility for the fact that areas west of Regina are not being serviced, that is true. It would be the air transport board. And if we had had to keep on, it would have been the same answer, I would hope.

Mr. HAHN: What about the three aircraft involved? Are they still owned by TransAir?

Mr. MCGREGOR: To the best of my knowledge, yes.

Mr. HAHN: Are they being utilized for that part of the service?

Mr. MCGREGOR: I do not know about the DC-3s, but I do know about the Viscount, because part of the deal was that we would maintain the Viscount, and we are still required to do it.

Mr. HAHN: They are flying it on that part of their route?

Mr. MCGREGOR: I do not think they are flying it on that part of their route. I do not think they can, because the airports are not available for it.

Mr. PRITTE: What was the loss on the Vancouver to Victoria run last year, and what were the load factors?

Mr. MCGREGOR: The answer to the first part of your question is \$785,000; and the load factor was 52 per cent.

Mr. PRITTE: Thank you. In reply to a previous question about this I think you stated that all, or practically all, of the short runs have lost money, but are maintained for the purpose of feeder service for the main line in many cases. You are down to six flights a day from Vancouver to Victoria except on Sunday, when it is five, I believe. What is the minimum to which you can go? This is a very large figure, \$785,000, with a load factor of 52 per cent. You must have similar runs such as Vancouver to Seattle, Halifax to Moncton, and Regina

to Winnipeg, where there is considerable loss in the way of load factors. How many runs a day do you make, and how do they compare, because this is quite a large amount of money as far as your total goes.

Mr. MCGREGOR: I do not think there is any rule of thumb in this area. We have operated routes as low as 5 flights a week. But we are in business to move passengers and goods and we try to meet traffic demands over all. An annual load factor of 52 per cent probably means that many flights are going out full, particularly on Fridays and Sundays. I do not think it is proper to say how infrequently you will operate.

Mr. PRITTIE: Yes. It is not correct to say that all of them are a loss operation in financial terms. From Vancouver to Seattle you have three flights a day. Do you maintain those for the same reason, in connection with the main line, or are there other air lines operating there too?

Mr. MCGREGOR: No, we operate them for two reasons. First of all, these are continuations of Vancouver to Victoria flights, and we do not operate directly between Vancouver and Seattle, unfortunately. But there is traffic on both legs; there is a substantial amount of traffic in the right season of the year between Seattle and Victoria, and this we feel ought to be served. It is in the bilateral agreement that this route belongs to Canada, and we would be loath to discontinue it for that reason.

Mr. PRITTIE: I think the main point of what I have been considering is the fact of \$785,000 a year which is a very great loss, with a great deal of alternative service; and you have six flights a day. Granted that you must keep a certain number for main line connections. I wonder if six flights are not too many in view of the demand?

Mr. MCGREGOR: I think you may be right.

Mr. PRITTIE: This all adds up, and in other parts of the country I am sure it is not too popular. It seems to be a very great sum of money.

Mr. MCGREGOR: We have "better" losses than that.

Mr. PRITTIE: For example, where?

Mr. MCGREGOR: I can give you several. Newfoundland, \$1,145,000; Montreal to New York, \$784,000. Mr. Harvey has drawn my attention to the fact that these losses include the agreed proportion of our overhaul bases and general overhead—his salary and mine, and so on. The abandonment of any one of these operations, I trust, would not reduce either of these figures.

Mr. PRITTIE: I have one other question with relation to the question Mr. Rhéaume asked about Calgary and Edmonton. Is it fair to say that a smaller operation such as T.W.A. has a smaller overhead? Would this be a factor in the frequency of service and the cost of operation from Calgary to Edmonton?

Mr. MCGREGOR: I really do not think so. I think those factors are an offset to some degree, but it is more a matter of what we refer to as the advantage of scale. We are operating 39 Viscounts, and I believe our over-all cost per Viscount and Dart engine, and so on, is considerably smaller than would be the case with an air line operating two or three of them.

(Translation)

Mr. LACHANCE: Mr. McGregor, I understand that only Air Canada and Air France operate the passenger service between Montreal and Paris. They are the only companies who operate a passenger service under an agreement.

(Text)

Mr. MCGREGOR: That is correct, on direct flights.

(Translation)

Mr. LACHANCE: Now, is it not true that the percentage of east bound passenger flights is 70% for Air France and 30% for Air Canada? In other words, the percentage of passengers carried by Air Canada is 30%, and the percentage carried by Air France is 70%, between Montreal and Paris, approximately at least.

(Text)

Mr. MCGREGOR: We will check our figures.

(Translation)

Mr. LACHANCE: The percentage of passengers moving between Paris and Montreal by Air France and Air Canada. I cannot comment on your figures now. The percentage of passengers carried to Canada from the whole of Europe is, Air France 7.6 and T.C.A. 34.9.

Mr. MCGREGOR: Do you mind telling me the source of your figures?

Mr. LACHANCE: This is from a friend of mine.

An hon. MEMBER: Explain.

Mr. LACHANCE: Could these be the right figures: 30 per cent for Trans-Canada and 70 per cent for Air France from Montreal to Paris?

Mr. MCGREGOR: I would not think so. It might be as high as 40-60. I do not know of any route where we are on a straight reciprocal basis in which we are far off sharing about half the traffic.

(Translation)

Mr. LACHANCE: Could you find out in the next few days and tell the committee what the percentage is between Montreal and Paris? Now, if the ratio is 70-30, as I said, or even 60-40, why do Air Canada carry fewer passengers than Air France between Montreal and Paris? Should it not be the other way round since Air Canada is a Canadian company and should be given more publicity in Montreal than Air France?

(Text)

Mr. MCGREGOR: I would not be sure of that at all. Their publicity is very strong. Anyway, I would like to see the figures.

(Translation)

Mr. LACHANCE: Now, Mr. McGregor, if that is true, as I think I have seen for myself, would it not be because there are not enough French-speaking employees on the Air Canada aircraft between Montreal and Paris? It seems to me this is a fairly logical question.

(Text)

Mr. CROUSE: Oh, Oh!

Mr. MCGREGOR: There are no cabin staff on the flights who do not speak French.

Mr. BENSON: That is correct.

Mr. MCGREGOR: None. Buy a ticket and try it.

Mr. LACHANCE: I have.

Mr. MCGREGOR: And you have found no French in the cabin?

Mr. LACHANCE: I do not say I have found no French, but the proportion that spoke French was not very large on some flights.

Mr. MCGREGOR: Mr. Benson would like to speak to that.

Mr. BENSON: Effective May 1, this year, on all flights to continental Europe—flights to Paris or other points in Europe—the attendants are bilingual and

one of the stewardesses is trilingual, speaking German as well as English and French.

(Translation)

Mr. LACHANCE: No, but you must recognize, Mr. McGregor . . . your remarks gratify me and I understand that for some time now, since May, things have improved. Yet it must be recognized that the percentage of French-speaking travelers in the province of Quebec is large enough to affect the revenue of Air Canada and I think it would be in that company's interest to make the most of the fact, namely, that there is a very considerable passenger potential in the province of Quebec. I know of a number of people who would have preferred to travel by Air France on various occasions, at least in the past, because of this situation.

(Text)

Mr. MCGREGOR: Even the mayor of Montreal does.

Mr. GRÉGOIRE: Even the mayor of Montreal does what?

Mr. MCGREGOR: Takes Air France on occasion.

(Translation)

Mr. LACHANCE: So will you provide us with the percentage between Montreal and Paris tomorrow, Mr. McGregor?

(Text)

Will you give us those figures from Montreal to Paris for Air France and T.C.A.?

Mr. MCGREGOR: I do not think I caught the first part of your question.

(Translation)

Mr. LACHANCE: Could you supply us tomorrow with the figures concerning the percentage of passengers travelling by Air Canada and Air France between Montreal and Paris?

(Text)

Mr. MCGREGOR: Yes, I am sure I can.

Mr. BASFORD: I would like to refer to page 9 of the report and the remarks about air cargo. What effort does the company make to develop markets for the products which might be transported by air?

Mr. MCGREGOR: Well, it is quite a question. I know of no stimulative effort we could apply which we do not. We advertise in all the trade magazines. We develop what are known as commodity rates to stimulate traffic. You may have read a good deal about a tremendous program we put on a few months ago to move Pacific coast fish east in Canada. This met with a tremendous amount of success. We have developed a market, particularly in France, for east coast lobster, and lately have flown tons of lobster to France. I know of no stone we have left unturned in an effort to develop cargo, and this probably accounts for the percentage of growth.

Mr. BASFORD: I was particularly interested in the west coast fish.

Mr. MCGREGOR: I thought so.

Mr. BASFORD: How is that working out?

Mr. MCGREGOR: Well, I have not had a report for the last few weeks, but they were most enthusiastic with the reception.

Mr. BASFORD: Is there any need for a change in the fishery regulations pertaining to the type of fish which can be transported?

Mr. MCGREGOR: I think perhaps there is a need for some change there but I am not an expert. I think there is a need for the ability to accumulate

a shipment. It has happened more than once that arrangements have been made for a great deal of space, however, the fish are not biting or something and they do not arrive at an assembly point at the right time. These commodity rates are based on larger volume shipments. It is most desirable from the air transportation standpoint that if a commitment is made for space, it is used.

Have you any ideas about the breeds and types of fish involved?

Mr. BASFORD: I did not catch one word you used.

Mr. MCGREGOR: I said, do you have any idea about the specific type of fish that would be more popular in the east?

Mr. BASFORD: I was thinking of salmon particularly transported to the United Kingdom.

Mr. MCGREGOR: You were speaking of salmon transported to the United Kingdom?

Mr. BASFORD: Yes.

Mr. MCGREGOR: Do you have fresh salmon in mind?

Mr. BASFORD: Yes.

Mr. MCGREGOR: The United Kingdom does have very good salmon of its own, you know.

Mr. BASFORD: There have been experimental flights transporting fresh salmon to the United Kingdom which was sold there like hot cakes.

Mr. MCGREGOR: From our standpoint, we are well willing to move cargo because in respect of Air Canada any cargo that is moved is a semibyproduct of passenger transportation and, therefore, it is extremely profitable.

The CHAIRMAN: Mr. Matte?

Mr. BASFORD: I have not completed my questions, Mr. Chairman.

As you are no doubt aware, the Department of Transport maintains some V.I.P. aircraft for the transportation of ministers and other individuals. I wonder whether Air Canada has ever offered a proposal to the government to provide to the government the same sort of service in respect of V.I.P.'s that the Department of Transport aircraft now provide.

Mr. MCGREGOR: I do not know exactly what the Department of Transport provides, and you refer to the same sort of service. We have offered, and in fact on occasion have chartered aircraft to the government for various V.I.P. travel. We were fortunate enough to be able to fly the Queen Mother to Canada a year or more ago and so far as I can make out from the communications I have received she and her party were quite satisfied.

Mr. BASFORD: I am not asking the following question because I happen to live in the area, but are you aware of the type of arrangement that exists between B.O.A.C. and the United Kingdom and Europe?

Mr. MCGREGOR: Yes, with respect to royal flights I am.

Mr. BASFORD: Yes, and these royal flights obtain for B.O.A.C. millions of dollars worth of publicity; is that right?

Mr. MCGREGOR: They have always been alleged to do so, yes.

Mr. BASFORD: Would that situation not also exist in respect of Air Canada?

Mr. MCGREGOR: Not likely, no.

Mr. BASFORD: Why would this not be true also in respect of Air Canada?

Mr. MCGREGOR: It would not be true because the services provided cost about four times as much as B.O.A.C. receives in return.

Mr. BASFORD: These services cost B.O.A.C. about four times as much as it receives in return?

Mr. MCGREGOR: Yes.

Mr. BASFORD: Why does B.O.A.C. provide that service in that event?

Mr. MCGREGOR: I guess perhaps they are told to do so.

Do you know what is involved in one of these flights? It is different now but in the past in respect of piston engine aircraft the experts drew a curve of engine failure history in relation to time since overhaul, they took two aircraft and put eight engines, four each, at the low engine failure portion of the curve. They completely refitted the interior of two aircraft and hid one behind a hangar refueled and put on the ramp for the party. That is the one that went on the trip but if anything went wrong they rolled out the other one. This system is not a cheap system.

Mr. BASFORD: Do I take it B.O.A.C. provides this service for nothing?

Mr. MCGREGOR: I do not think so.

Mr. BASFORD: If T.C.A. or Air Canada received some financial payment from the government less than what it cost to maintain the D.O.C. fleet would this be a worth-while operation both to Canada and to Air Canada?

Mr. MCGREGOR: I do not think the D.O.T. fleet has ever been involved in one of these long range operations of which we are speaking.

Mr. ROCK: The R.C.A.F. is involved.

Mr. BASFORD: Most of the aircraft involved are domestic.

Mr. MCGREGOR: The Department of Transport owns a Viscount or two and a Jet Star, something small and fast, but it is not involved in the long range business.

Mr. BASFORD: In your opinion it is worth while to the government to maintain the Department of Transport aircraft?

Mr. MCGREGOR: I do not know.

Mr. ROCK: That is a good answer.

Mr. BASFORD: Do I gather from what you say that Air Canada certainly would not want to maintain this service?

Mr. MCGREGOR: We would be quite willing to charter a flight to the government any time it wants us to do so, and we have offered to do so. We even at one time offered to maintain a long range aircraft on a comparatively short notice basis. We would not want to receive a call for such an aircraft tonight to fly the Prime Minister to England tomorrow but we would be quite prepared to keep an aircraft at semireadiness if we were given a week or two weeks notice of its requirement, and we have said so.

Mr. BASFORD: I take it from your answer you would not like to receive a call at nine o'clock in the morning to deliver the Secretary of State to Delhi?

Mr. MCGREGOR: No, but I would not mind delivering him to Washington, at short notice.

Mr. BASFORD: In your answers to questions asked by Mr. Fisher this afternoon I understood you to say that the problems raised by your commitments under interlying agreements which worked to the disadvantage of T.C.A. had now been solved, is that right?

Mr. MCGREGOR: I do not think that is too broad a statement, except it does not take the reciprocity into account. These problems work in both directions. We are set against C.P.A. in the matter of trans-Pacific traffic and they are set against us in the matter of trans-Atlantic traffic. The agreement in principle which I reached with Mr. McConachie promises an end to this difficulty.

Mr. BASFORD: Have these problems been solved or have they not been solved?

Mr. MCGREGOR: We both signed a document which stated we would stop this nonsense.

Mr. BASFORD: When will this policy come into effect?

Mr. MCGREGOR: It will come into effect tomorrow as far as I am concerned. I cannot answer that question for everyone.

Mr. BASFORD: Why is that policy not coming into effect tomorrow?

Mr. MCGREGOR: It is not coming into effect tomorrow mainly because the effective date was not established at the time of the agreement. I do not see any difficulty in this regard. C.P.A. has much more to gain than we do in this area.

Mr. BASFORD: When will an effective date be agreed upon?

Mr. MCGREGOR: I would think an effective date will be agreed upon this week because, as I said, the teams are meeting in Vancouver beginning tomorrow.

Mr. BASFORD: Thank you.

The CHAIRMAN: Mr. Matte?

*(Translation)*

Mr. MATTE: Mr. McGregor, in September 1963 you started a Viscount service between Trois-Rivières and the Montreal-Quebec line. Have the results been satisfactory and do you intend to increase the service, because there is only one departure and one arrival each day?

*(Text)*

Mr. MCGREGOR: The answer is no to both questions. Initially because I suppose this was a new and unique service the traffic was quite surprisingly good. That traffic died off very very quickly and has not been improving. Our average per flight boarding at Three-Rivers in the months of September to April inclusive was 1.6 passengers, so we will not be increasing the frequency. In fact, if we did the right thing we would decrease the frequency.

*(Translation)*

Mr. MATTE: Now if more advertising was done on the local television, perhaps, or on the radio?

Mr. MCGREGOR: One moment, please.

Mr. MATTE: Yes. If more advertising was done on the local television or radio it might encourage passengers to travel more by air?

*(Text)*

Mr. MCGREGOR: This might be true but the fact is, as you know, the city is not far enough away from Montreal or Quebec to justify air transportation.

*(Translation)*

Mr. MARCOUX: I have a supplementary question. Was it decided to have a stop at Trois Rivieres after a survey by Air Canada or did the Department of Transport assist to some extent by favoring the daily stopover?

*(Text)*

Mr. MCGREGOR: Dr. Marcoux, the situation at the time was that the Minister of Transport had a certain affiliation with Three Rivers and he asked that we make a study. We made the study and it reflected a situation very much like the actual. So, I explained this to the Minister of Transport, and he asked if I knew that a bridge across the St. Lawrence at Three Rivers was being contemplated. And, I believe I said I had heard something about it but I did not know whether it was going to be built or not. And, he said: "Well, if it is built and when it is built, then the traffic at Three Rivers will improve greatly." And, I am still living in hope that may be so.

(Translation)

Mr. MATTE: Last year I was going to Trois Rivieres, but because of the fog I had to land at Quebec which is about 90 miles farther on. I was told there was no radar at Trois Rivieres. Does your company intend to set up radars wherever there are runways?

(Text)

Mr. MCGREGOR: No, we do not provide navigational aids. That is the Department of Transport's function.

The CHAIRMAN: Would you proceed, Mr. Crouse.

Mr. CROUSE: Recently Air Canada suspended its early morning flight from Halifax to Saint John, New Brunswick. This has brought quite forcibly to the attention of maritimers that regional air services are far from adequate. In view of the inconvenience this action has caused many air minded people could you tell us the reason for the suspension of this service?

Mr. MCGREGOR: Yes, I believe I could. I believe this is the answer given by the minister to the same question in the house. The frequency loss referred to is flight 421, originating at Halifax at 7.35 a.m., via Moncton, arriving Saint John 9 a.m., and flight 428, which is the returning flight, departing Saint John, 10.45 p.m., arriving Halifax 11.35 p.m. In terms of local traffic, these two flights were poorly patronized. In the month of August, 1963, there were 38 local passengers Halifax to Saint John in the month and 34 Saint John to Halifax in the month, or less than three people per day. So, I do not think the inconvenience is very widespread.

These two flights provided opportunity for a full day in Saint John for the Halifax passengers. The current schedule for the summer has the first flight departing Halifax at 10.30 a.m., arriving Saint John, 11.15 a.m., with the last flight departing Saint John at 4.30 p.m., arriving Halifax at 5.10 p.m.

The local traffic increases on this route in the winter. Current plans for the winter of 1964-65 have a 9.40 a.m. departure from Halifax with a 10.25 a.m. arrival at Saint John, with a 9.25 p.m. departure from Saint John and a 10.20 p.m. arrival in Halifax. It is felt that these will accommodate the local traffic.

Mr. CROUSE: Now, I appreciate that the statement which you have given us is to the effect that this trade has fallen off; but, you are committed to a policy which demands a fleet of large aircraft operating lengthy route patterns, and I would like to ask what will be your policy when 72 passenger aircraft are put into service on routes which are now handled by 52 seat Viscount aircraft?

Mr. MCGREGOR: We have said that we still intend to operate Viscounts through 1972, so perhaps we are being a little bit pessimistic when we think of the time when the aircraft will have grown so large we will have to further curtail the frequency.

Mr. CROUSE: But, as a government supported service do you not feel you have an obligation to provide service as a regional carrier on routes such as the ones I have mentioned?

Mr. MCGREGOR: Yes, and that is why we do these things. But, let us be careful about this government supported operation. The government only contributes to T.C.A. when it has a deficit, which has been thrice in the last 13 years.

Mr. CROUSE: I admit that is an admirable record, but in assessing the situation would you not agree that the regional routes, for example between Halifax and Saint John, would be serviced better by smaller aircraft, and in view of the fact that you people have withdrawn from that particular service

would you raise objection if individual operators should apply and endeavour to move in and supply that service?

Mr. MCGREGOR: It would depend on the circumstances. I would not think we would raise objections if they were going to improve the service, no.

The CHAIRMAN: Would you proceed, Mr. Rock.

Mr. ROCK: According to your report there has been a substantial increase in your freight traffic.

Mr. MCGREGOR: Yes, 22 per cent.

Mr. ROCK: Are these aircraft which are used all passenger cargo aircraft?

Mr. MCGREGOR: I beg your pardon?

Mr. ROCK: Are the aircraft which are used all passenger cargo aircraft?

Mr. MCGREGOR: Yes.

Mr. ROCK: You have no aircraft strictly for freight?

Mr. MCGREGOR: No, no longer.

Mr. ROCK: Have you any intention of going into strictly freight cargo?

Mr. MCGREGOR: Not at the present time.

Mr. ROCK: Are you satisfied with the way your passengers are subjected to, what I would call, regimentation by the Murray Hill taxi service at the Montreal airport? I have on many occasions taken that taxi service and I find there is a lot of regimentation. It even got to the extent that you had to go into another office and report there, ask the price and all that sort of thing. In my experience, I have found that it is faster just to dial a number for another taxi, perhaps the Dorval taxi, and get into that. It provides a faster service and is about one third less.

Mr. MCGREGOR: Well, Mr. Fisher certainly will be interested in what you are saying.

Mr. ROCK: I do not want to get into the same subject, but I would like to continue.

Mr. MCGREGOR: I did not know you could dial Dorval taxi and have one pick you up.

Mr. ROCK: Yes. You have the right to have any taxi pick you up. Have you any objection to giving your passengers a better service when they get off your aircraft, such as having a right to go to an area within the building where there would be available direct lines to different taxi associations.

Mr. MCGREGOR: None whatsoever. In fact, the better service on ground transportation a passenger receives the better we like it.

The CHAIRMAN: Have you a question, Mr. Muir?

Mr. MUIR (*Lisgar*): I have some short questions in respect of service and traffic. They have to do with the DC-9. When did you say the DC-9 would be in service?

Mr. MCGREGOR: In the spring of 1966.

Mr. MUIR (*Lisgar*): What is the expected range of the aircraft?

Mr. MCGREGOR: I think it is about 1,600 miles.

Mr. MUIR (*Lisgar*): On what routes do you intend to use them?

Mr. MCGREGOR: On all routes that that range will accommodate.

Mr. MUIR (*Lisgar*): Is that just within Canada?

Mr. MCGREGOR: Yes, and to some degree the inner Caribbean.

Mr. MUIR (*Lisgar*): What is the capacity in the economy and in the first class?

Mr. MCGREGOR: In the configuration that we are planning it is a total of 72.

Mr. MUIR (*Lisgar*): What proportion of that would be first class?

Mr. MCGREGOR: Sixty economy and 12 first class.

Mr. MUIR (*Lisgar*): How much freight would you carry besides that?

Mr. MCGREGOR: Not much, basically it is a passenger aircraft.

Mr. MUIR (*Lisgar*): Are you negotiating for any routes that the DC-9 could handle, such as, say, the mid west, to Minneapolis, or even as far down as Mexico, and particularly to San Francisco to tie in with the trans polar route?

Mr. MCGREGOR: Yes.

Mr. MUIR (*Lisgar*): What are your hopes of getting it?

Mr. MCGREGOR: Negotiations were opened about a month ago between the United States and the Canadian governments on a renegotiation of the bilateral agreement. The best way to describe the talks is to say they were exploratory in nature, and the meeting was adjourned with a decision to reconvene in mid July. On the basis of past history, I am not very hopeful.

Mr. MUIR (*Lisgar*): Not very hopeful about any route through the southern states? At the time that you purchased these planes which, I think, are built in San Francisco—

Mr. MCGREGOR: Closer to Los Angeles.

Mr. MUIR (*Lisgar*): Would that not be an opportune time to negotiate a route, particularly since you are going to have to get your repairs at that point, will you not?

Mr. MCGREGOR: No, at Dorval. In any case, if there is something in your argument and I hope there is, this will continue because I have no thought in mind that our purchase of the DC-9 will be confined to our initial order of six. So this will be a continuing lever, if it is a lever.

Mr. MUIR (*Lisgar*): Do you not think it would certainly be a terrific lift to traffic growth if you could connect San Francisco with Winnipeg, and then go over the trans polar route?

Mr. MCGREGOR: We always desired to have the long diagonal transborder, that is eastern Canada to the United States Pacific coast.

Mr. MUIR (*Lisgar*): Why does the United States have a monopoly on the whole western and southwestern part of the continent?

Mr. MCGREGOR: The reason is, I suppose, that the United States is a country developed in depth from the border, and we are not. We are a thin band of population along the north side of the border, and the result is that we have no real *quid pro quo* for the type of deep penetration that we would like to see.

Mr. MUIR (*Lisgar*): At the same time the United States aircraft coming into Winnipeg use Air Canada as a feeder line. Are you using it very successfully, because those planes are, I would imagine, a very paying proposition?

Mr. MCGREGOR: Yes. On the other hand, Winnipeg itself is not connected to the western United States by either the United States or Canada.

Mr. MUIR (*Lisgar*): That is right. Are you in favour of Scandinavian air lines taking on passengers to California when they drop down for servicing?

Mr. MCGREGOR: Indeed I am not. I am not in favour of any other air line taking on passengers if we can take them on.

Mr. MUIR (*Lisgar*): You just told me you do not fly to the western states, so it would not make any difference, would it?

Mr. MCGREGOR: It will make a difference, but we cannot do anything about it. Furthermore we do not know of any permission that S.A.S. has to operate between Winnipeg and the west coast of the United States.

Mr. MUIR (*Lisgar*): They have not, but they do fly over Winnipeg to the west coast; in fact they land there, do they not? That is about as far as we can go with the DC-9 at the moment.

What do you think of the physical facilities of the new airports? You have been around all the new ones that we have been building lately; what do you think of them?

Mr. MCGREGOR: We talk about an airport as meaning runways and navigational facilities, and we talk about a terminal as being passenger and cargo handling facilities. Do you mean airports or terminals?

Mr. MUIR (*Lisgar*): I mean terminals.

Mr. MCGREGOR: The new ones, with the exception of the walking distances, are basically good.

Mr. MUIR (*Lisgar*): You just rent them from the Department of Transport, do you not?

Mr. MCGREGOR: We rent the area we occupy, the counter area, office space, etc.

Mr. MUIR (*Lisgar*): But at the same time you are interested in the comfort of your passengers. What do you think of the idea that they have in Winnipeg where the old people like myself have to carry their suitcases upstairs without even an escalator?

Mr. MCGREGOR: I do not think there is anything as bad as Dorval in that respect.

Mr. MUIR (*Lisgar*): What is the intention? Is it intended that they would load the aircraft from the second deck, is that the idea?

Mr. MCGREGOR: No.

Mr. MUIR (*Lisgar*): Are you not going to load the DC-9's from the second deck as they do in Newfoundland?

Mr. MCGREGOR: Not that I know of.

Mr. MUIR (*Lisgar*): I thought that at Gander you went out on a ramp on the second deck.

Mr. MCGREGOR: You went out on a ramp but on the deck.

Mr. MUIR (*Lisgar*): I thought for sure that I was sober that night!

Have you requested D.O.T. to instal escalators in Winnipeg, or have you made any suggestion to them that they should?

Mr. MCGREGOR: Perhaps I am not talking on the same subject but we made strong recommendations to D.O.T. to have a moving sidewalk installed in the tunnel at Dorval, and I read quite recently that this had been approved in estimates, but no work has yet been started. Basically it is this, anything that improves the service to the passenger or decreases strain and annoyance to him we are heartily in favour of, particularly if D.O.T. is paying for it.

Mr. MUIR (*Lisgar*): Would you like to request D.O.T. on my behalf to put an escalator in Winnipeg?

Mr. MCGREGOR: I would be glad to.

Mr. PASCOE: Mr. Chairman, one of the drawbacks of being on your list of speakers so far down is that when your turn comes your questions have been asked and answered. I had some questions in regard to service on the prairies by TransAir, but they have been asked and answered. There was one more point. Mr. McGregor indicated, I believe, that in the agreement with TransAir, Air Canada is servicing the Viscount.

Mr. MCGREGOR: One Viscount.

Mr. PASCOE: Is that a very expensive proposition, and how much longer will it be carried on?

Mr. MCGREGOR: It is paid for by TransAir at T.C.A. standard cost of labour and parts.

Mr. PASCOE: I have one more question. This was referred to on page seven and it concerns the very substantial growth of air traffic. It is stated on page eight that Air Canada was making a very concentrated air freight sales program. I have a press story here which speaks about the spectacularly growing transportation of agricultural products by air. It says that the movement of agricultural exports by air is broadening into all parts of the world. It also gives the United States figures. It shows that farm products shipped by air total 20,200,000 pounds, or 15,100,000 pounds more than in the same period for the previous year. It refers to shipments of eggs in the shell, meat and meat products, nursery and floral stocks, baby chicks, and so on. I think you indicated, Mr. McGregor, that you were very interested in the shipment of fish, and so on. Have you made any effort in regard to these other farm products?

Mr. MCGREGOR: Yes indeed, but I am afraid they are not Canadian. We broke into the northbound traffic of farm products such as tomatoes in a big way from the Caribbean last winter with fair success. We have always shipped baby chicks and poults in both directions across the country. I laughingly proposed one time a return fare on these but it turned out that it was not the same breed that move in both directions. We are very much in that market and have done quite a lot to promote it.

Mr. PASCOE: Would you say it is expanding?

Mr. MCGREGOR: Yes.

*(Translation)*

Mr. GRÉGOIRE: Mr. McGregor, in 1967 when the World Fair is to be held in Montreal is Air Canada making any plans to meet the increased passenger services that will be necessary at that time?

*(Text)*

Mr. MCGREGOR: Yes, very much. We are looking forward to it very hopefully and I would like to think that by 1967 we will have ample capacity to meet any sharp peaking in traffic.

*(Translation)*

Mr. GRÉGOIRE: Now, are you beginning to advertise in the countries abroad where you operate, or do you intend to advertise jointly with the commissioners of the World Fair?

*(Text)*

Mr. RHÉAUME: On a point of order, Mr. Chairman, surely Mr. Grégoire can keep his questions closer to home than 1967.

Mr. MCGREGOR: He is asking what is happening today.

Mr. GRÉGOIRE: I am asking what is happening now in view of the fair in 1967.

Mr. RHÉAUME: The report we are discussing is for 1963.

Mr. GRÉGOIRE: I think it is normal to ask what is being done now ready for 1967.

Mr. RHÉAUME: What are you going to ask on "Outlook" if you are using all your bullets now?

Mr. GRÉGOIRE: I am dealing with passenger service now.

Mr. MCGREGOR: We are a contributor to Mayor Drapeau's world wide circulation of a magazine, the first issue of which came out under the title "Montreal '64". The third issue will be largely devoted to Air Canada as a starter.

(Translation)

Mr. GRÉGOIRE: Do you intend to organize trips to the forthcoming fair through your agencies abroad, to organize special trips to the Fair?

(Text)

Mr. MCGREGOR: Yes. As a matter of fact, we have been doing that in the normal way for some years but we will give special publicity to the advent of the world fair, and I am quite sure we will have the required capacity from Europe and from the United States of America.

(Translation)

Mr. GRÉGOIRE: Do you expect to have a considerable increase before the World Fair?

(Text)

Mr. MCGREGOR: On certain routes, yes. I do not expect a very great increase on transcontinental because I do not think the Expo '67 will be a great attraction to western Canadians. I think it will be a greater attraction to people from eastern United States and to Europeans.

(Translation)

Mr. GRÉGOIRE: As you will only have six DC-9's at that time, as you said a moment ago, do you intend to use them on the most suitable runs for the World Fair? Have you thought of that, have you made any plans along those lines?

(Text)

Mr. MCGREGOR: No, because I do not think we will only have six DC-9's in 1967. I will be greatly surprised if we do not find it necessary to order additional DC-9's before even the first one is delivered.

(Translation)

Mr. GRÉGOIRE: Have you thought of using your first, or rather preparing runs for that purpose with the new DC-9's?

(Text)

Mr. MCGREGOR: I think if you are prepared to admit that the New York-Montreal route will be a very strong contributor, yes; and it will probably be one of the first routes served by DC-9's.

Mr. GRÉGOIRE: And Toronto-Montreal?

Mr. MCGREGOR: I would think so, but there are DC-8's and many other aircraft on that route.

(Translation)

Mr. GRÉGOIRE: This is a question Mr. Rock was asking a moment ago about the Montreal airport, the limousine service, have you made any inquiries about various airports to see whether the limousine service might not give rise to complaints on the part of your passengers, or have you had any complaints from passengers in that respect, do you intend to make any improvements?

(Text)

Mr. MCGREGOR: The quality of the limousine service is one of about 20 items on our standard passenger questionnaire which we circulate twice a year to passengers of record within the previous one or two months. I must say that the limousine service is low on the list of priority so far as complaints are concerned. You have seen these questionnaires, no doubt. We can show you one.

(Translation)

Mr. GRÉGOIRE: Mr. McGregor, people usually travel by plane to save time but in most cases, when you arrive at Dorval, for instance, the limousine stops at several hotels before reaching the one you want to get to, and you waste another fifteen or twenty minutes maybe. Would that give rise to complaints? Does that not harm the Air Canada passenger service?

(Text)

Mr. MCGREGOR: I do not believe it hurts it. I think a passenger is inclined to blame the evils of ground transportation upon ground transportation companies and not upon the air line. One gets the same ground transportation whether one is travelling by Air Canada, B.O.A.C., C.P.A., or any other line, so I do not think that is particularly injurious to the air line. The only solution to this whole problem—and one that I shun greatly, would be for the air line to go into the ground transportation business. I am a firm believer in the shoemaker sticking to his last, and I think it would be very wrong for us to get into the ground transportation business, although I must say it has been looked at on more than one occasion.

Mr. PRITTE: Go by train to Montreal!

Mr. MCGREGOR: That is very good advice.

(Translation)

Mr. GRÉGOIRE: That is precisely the example I wanted to give, Mr. McGregor. Previously it took four hours to get from Quebec to Montreal but now you can get from the centre of one city to the centre of the other by train in two hours and forty-five minutes. And when you take the limousine from the Montreal airport to the centre of the city you often have to wait ten, twelve or even fifteen minutes before the limousine leaves, and it takes an hour from the time you land to the time you reach the centre of the city, and the same thing, forty-five or fifty minutes at Quebec, plus the flight... Previously it took four hours by train and two and three-quarter hours by plane but now it takes two and three-quarters in both cases.

(Text)

Mr. MCGREGOR: Yes. For some years—about ten—I have been saying that my belief is that air transportation is for distances of 500 miles and upwards. I quite agree that if one is travelling from city centre to city centre, either from Montreal to Quebec or Quebec to Ottawa—and Ottawa to Toronto, I guess, can be included in this—surface transportation does not cost much time in total. We do not make any money on this short distance travel so I would be very happy if they would take the trains, but they do not.

(Translation)

Mr. GRÉGOIRE: But in spite that, people who go by plane, for example between Ottawa and Montreal, will continue on to Quebec City but those who get off at Montreal will arrive in Montreal from Bagotville, for example, Quebec, do you not think the limousine service should be improved? For people who travel a greater distance, for example from Bagotville to Montreal, those who arrive at Montreal, those who travel from Toronto to Montreal, for those people the service between the airport and the centre of the city is very poor at the present time. I do not know how it could be improved. Have you given the matter any thought?

(Text)

Mr. MCGREGOR: We have thought of it many times. We have made suggestions. We have even investigated with the railway the idea of operating something like a day liner between the airport and the downtown rail terminals. They are not very interested because, I suppose, these things would operate over

main line railway right of way and would tend to interfere with long distance trains. This problem of ground transportation is as old as aviation and I do not know any place in the world where they have found a good solution for it.

(Translation)

Mr. GRÉGOIRE: Mr. McGregor, do you get any complaints from people travelling by plane regarding the way luggage is handled by Air Canada?

Could you not try to send some inspectors for a few days to the place where the luggage arrives to see the public reaction when they collect their luggage, often it is just a scratch and they do not think it worthwhile to complain, but in time, after a month or a month and a half, people who travel to any extent find that their luggage is damaged, it has been knocked about. Do you not intend to see the public reaction. I have watched on many occasions and I have seen people collecting their suitcases and saying "there, there is another mark on it".

(Text)

Mr. MCGREGOR: Air Canada's treatment of baggage, as far as I know, is pretty good. Are you talking about damage to baggage?

Mr. GRÉGOIRE: Yes.

Mr. MCGREGOR: I have a suitcase that has travelled maybe 200,000 miles and it still looks reasonably presentable.

Mr. RHÉAUME: Does it say "G. R. McGregor" on it?

Mr. MCGREGOR: Of course, yes!

Mr. GRÉGOIRE: I will bring you one I received just one month ago, in fact on May 1, and show you what it looks like now.

Mr. RHÉAUME: Put "G. R. McGregor" on it.

Mr. MCGREGOR: You have not put "M.P." on it, have you?

Mr. GRÉGOIRE: No.

Mr. MCGREGOR: I hope that these people realize that the baggage has been in a crowded trunk of the taxi getting to the air line and in a crowded trunk of a taxi getting away from the air line. My own observation indicates that there is more damage done to baggage on the ground than there is in the air lines.

Mr. GRÉGOIRE: That has been my experience too.

(Translation)

Mr. Chairman, if you will allow me, I do not think I am taking up too much of your time, I have one last question. Is Air Canada organized at the Bagotville airport so as to avoid any danger for their aircraft; more particularly, have any steps been taken since the last Viscount accident, in connection with the military base since the Air Canada aircraft arrive at the same military base as the Voodoos flying in that area? Have any safety measures been taken, particularly at that airport to avoid accidents?

(Text)

Mr. MCGREGOR: Air Canada has no control over the operation at Bagotville. It is an R.C.A.F. field, and the control tower is administered by the R.C.A.F. Under the circumstances that applied to the accident to which you refer, I would think that special precautions would have been taken, but not by Air Canada. Would you like to comment on this, Mr. Rood?

Mr. ROOD: I believe that to be so, yes sir.

Mr. MCGREGOR: I should say that the same conditions apply at Uplands. I mean that it is a jointly used field.

Mr. MACEWAN: With respect to the feeder service, I think that T.C.A. should attempt to tie in their schedules with the feeder services. I am think-

ing specifically of Eastern Provincial Airways. There is only one flight per day five days per week, I am referring to the flight from Charlottetown to Trenton to Halifax. I have flown on that flight, and the only flight arrives at Halifax at two o'clock, while the connecting flight leaves at two thirty. If you could run 100 yards pretty well, you could make it. But now the T.C.A. flight leaves after the E.P.A. flight leaves, and even if you were jet propelled, you could not make it. I do not think there is too much traffic, but in the Trenton to New Glasgow flight there is a fair amount. I wonder if the officials can recall if there has been any attempt made to effect liaison with E.P.A. on that one flight?

Mr. MCGREGOR: We have had the same trouble before, and we endeavoured to schedule our plans with other carriers. For years we had a great squabble with Quebec Air who appeared deliberately to be avoiding connection. Whether that is true or not, I do not know. But we do not always know what they are going to do, and they do not always know themselves. Our operating plan is drawn up usually about six months before publication of the time table which establishes the flight operations. But the planning of many of the smaller carriers is not extended so far in advance. We certainly do not try to miss their connection.

Mr. MACEWAN: I think the flight time from Charlottetown to Halifax has been going on for some time.

Mr. MCGREGOR: Only since June 15, has it not?

Mr. MACEWAN: I think it has been the same time period for a year at least.

Mr. MCGREGOR: So far as I know from the hearing a few months ago and the ruling of the air transport board, with respect to E.P.A.'s operations to the mainland, it only applies to flights commencing June 15.

Mr. MACEWAN: But I was referring to M.C.A. which has been taken over by E.P.A.

Mr. MCGREGOR: I am not informed about that. Perhaps we are making a better connection with their present service. We have endeavoured accurately to schedule the flights, but we found difficulty in finding out what their plans are.

Mr. MACEWAN: Would you mind making a note of it?

Mr. MCGREGOR: Yes, I would be glad to do so.

*(Translation)*

The CHAIRMAN: Mr. Marcoux.

Mr. MARCOUX: Mr. McGregor, you spoke earlier of the advantage there would be in advertising for the purpose of increasing traffic, either passenger or freight traffic. I see here in your statement of revenue, the item sales and promotion. Would it be possible to know what percentage is attributed to sales and what percentage is attributed to promotion, in other words to publicity, and I would like you to tell us what you mean by sales. Is it the cost of repairs to premises, etc.

*(Text)*

Mr. MCGREGOR: No. The cost of selling is the maintenance of ticket offices, the issuance of tickets, and the maintenance of reservation services. This is not cheap. Promotion is largely advertising, and we can give you our advertising bills as a proportion of the total of that item. The total 1963 expenditures for advertising and publicity which cover publications, radio, television, printed material, direct mail material, time tables, schedules, guides,—the total for advertising and distribution is \$5,318,000.

(Translation)

Mr. MARCOUX: Then this would mean that you have spent about \$5,800,000 out of \$29,000,000 on publicity.

(Text)

Mr. MCGREGOR: I should have said \$5,318,895 or \$5,319,000.

(Translation)

Mr. MARCOUX: Thus out of the \$29,000,000 you have spent on sales and promotions, \$5,800,000 were for publicity?

(Text)

Mr. MCGREGOR: No, \$5,319,000.

(Translation)

Mr. MARCOUX: That is approximately  $\frac{1}{6}$  for publicity and  $\frac{5}{8}$  for reservations and equipment.

(Text)

Mr. MCGREGOR: That is correct.

(Translation)

Mr. MARCOUX: Does that compare with other airlines in your opinion?

(Text)

Mr. MCGREGOR: The proportion of advertising cost to gross sales is what we prefer as a basic measurement. It is just about the same as other carriers, perhaps a little bit lower.

(Translation)

Mr. MARCOUX: Do you think that if you adjusted a little more to the figures of other lines you could get better results?

(Text)

Mr. MCGREGOR: I am not sure that I understand the point. No, I do not think so. I think our expenditures for advertising are properly related to the performance of other carriers who are operating in a higher expense advertising area. A lot of newspaper advertising in Canada is considerably cheaper than in the United States. I think our expenditure for advertising relates properly. It is, if the vice president in charge of sales is satisfied that the amount of money spent on advertising is about right.

Mr. GRANGER: I was interested in Mr. McGregor's reply to questions in respect of the possibility of handling fish by air, and that T.C.A. already handled lobsters in quantity to Europe. I would like to mention that the east coast of Canada produces fish in abundance. Europe consumes it in great quantities. I was happy about what Mr. McGregor said in respect of his company's research and their constant endeavour to increase their freight traffic which has succeeded so well, with a 22 per cent increase. I was happy to learn that he is looking into the matter of shipping not only the higher priced fish such as salmon, turbot, halibut, but also fresh codfish to these economic European markets.

Mr. MCGREGOR: We certainly have. Obviously the higher priced fish is the fish which can afford to travel by air, like humans. We would very much like to say that it would increase the east bound traffic because, like all our routes cargowise, there tends to be an imbalance in favour of west bound travel. So, anything that provided us with what you may call a more even market for cargo would be very acceptable.

Mr. GRANGER: Do I understand that your air line and others, in fact, do considerable work in developing markets?

Mr. MCGREGOR: We work almost like the operators of tramp steamers. We go around to the big importers and say, "Why not ship this?" They say, "Well, if it goes down a cent a ton mile, or something, it might be all right." So we try that. We peddle our wares in the matter of air cargo very strenuously.

Mr. BASFORD: I would like to go back to the question of air terminals. To what extent are you and other major carriers consulted by the Department of Transport in respect of the planning for terminals?

Mr. MCGREGOR: The history is rather mixed. The Department of Transport, prior to finalization of the plans for Dorval, asked that a syndicate of the air lines be formed. They asked us to chair this group. This group was composed basically of all the foreign carriers operating into Montreal, of which there are nine or 11. The first draft of the Department of Transport plans was submitted to that group, very strongly criticized and finalized. So, we were consulted; but it did no good.

In the case of Toronto an outside architect was used, and I think we can agree the result, while perhaps not perfect, is very much better. I do not know whether in the case of Toronto we were specifically consulted. They never have acted without asking us what we thought of the plans, and when we thought they were awful, the building was built as a rule.

Mr. BASFORD: Have you been consulted with regard to the proposed terminal at Vancouver?

Mr. MCGREGOR: No, not to my knowledge.

Mr. PRITTE: It is rather late if you have not been consulted by now.

Mr. BASFORD: No. This is why I am asking; they still have time.

Mr. MCGREGOR: I am quite wrong. We were consulted. There was a suggestion about split control of passengers. If I remember it correctly, we found fault with it. In that case I believe our objections were considered, and some modifications were made. However, I am quite wrong; we were consulted in the case of Vancouver.

Mr. BASFORD: Do I take it, then, that the plans for Vancouver meet with your approval?

Mr. MCGREGOR: Yes; I think it will be satisfactory.

Mr. BASFORD: Was C.P.A. consulted in a like manner?

Mr. MCGREGOR: I am sure they were. In fact, I think they joined with us in our criticism.

Mr. BASFORD: And I take it the criticism was accepted.

Mr. MCGREGOR: I believe so.

Mr. BERGER: Very briefly, Mr. Chairman, I would like to go back to these complaints which a few of my colleagues have expressed with reference to ground transportation and limousine facilities. You have mentioned, Mr. McGregor, that you have given a few talks about operating your own service. Have you ever given any thought to Air Canada making available helicopter facilities and charging a little more for taking your passengers to the hotel and back?

Mr. MCGREGOR: Yes.

Mr. BERGER: If it is not feasible to have this type of service right now, could we expect to have it in a few years?

Mr. MCGREGOR: I think it is true to say we have been expecting it might become economical within a few years, but it has not. The chances do not look good. The development of helicopters depends almost entirely on the military need. This may produce a large economical helicopter, but it has not done so yet although the helicopters are improving.

Mr. TUCKER: I understand that T.C.A. lost over \$1 million last year in its operations to Newfoundland. No doubt some of this has been caused by the poor location of the airport at St. John's. I am wondering whether any consideration has been given to relocation of that airport, or whether any thought has been given to having an alternative strip. Very often in St. John's the weather is foggy because the airport is so near the coast, and yet 15 or 20 miles away, if an airport were to be erected, a plane could land without any difficulty.

Mr. MCGREGOR: You are perfectly right. The airport at St. John's is in a poor weather location, such as was the case in Halifax until a new one was built. I feel I would be stepping outside my proper role if I were to comment on what the Department of Transport may or may not be planning. Air Canada does not construct airports. I do not know where this stands in Department of Transport planning. However, you are perfectly right; St. John's suffers seriously from interruption in weather conditions. I do not know whether or not that accounts for the financial result, but it certainly does not do it any good.

The CHAIRMAN: May we carry the section on service and traffic growth?  
Agreed.

The CHAIRMAN: We will meet tomorrow morning, gentlemen, at ten o'clock and finish.

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TUESDAY, June 23, 1964.

(Text)

The CHAIRMAN: Order, gentlemen. This morning we are on equipment and facilities.

Would you proceed, Mr. Rhéaume?

Mr. RHÉAUME: Mr. McGregor, at our last committee hearings we talked a bit about the Vanguard equipment and at that time you mentioned, I believe, that one machine which the company owned still was in England.

Mr. G. R. MCGREGOR (*President, Trans-Canada Air Lines*): Yes.

Mr. RHÉAUME: And, that the Vickers people were experimenting with it. Have you anything further to tell us in this connection?

Mr. MCGREGOR: Yes. The aircraft was accepted for delivery last April and is now in service. We believe that its time was well spent in this case in the United Kingdom because modifications were developed. We think that this had a substantial improving effect on the vibration level of the aircraft.

Mr. RHÉAUME: But, obviously they were not able to completely eliminate it.

Mr. MCGREGOR: You mean eliminate the vibration?

Mr. RHÉAUME: Yes, as extensively as was hoped, as there is still some vibration.

Mr. MCGREGOR: Well, it depends a lot on the individual aircraft. I have been in three or four aircraft lately that I thought were excellent, and this is largely the degree to which the modification program has been applied across the fleet. I do not think we ever will eliminate vibration where there is movement, but this is now at a very satisfactory level.

Mr. RHÉAUME: So, were there some modifications made to all the other Vanguards?

Mr. MCGREGOR: Not all of them yet, but they are in the process. They are going through the fleet.

Mr. RHÉAUME: In respect of the new flight recorders on which I believe Air Canada was going to spend \$1,000,300 what progress has been made in regard to those installations? It seems to me that they were ordered last fall.

Mr. MCGREGOR: No, I do not think that is correct. We had one installed last fall on an experimental basis that proved out satisfactorily, and the order was placed for recorders, I think, just within the last few weeks.

Mr. RHÉAUME: But, these flight recorders are the sophisticated ones you are talking about?

Mr. MCGREGOR: Yes.

Mr. RHÉAUME: When will all your fleet be equipped with these flight recorders?

Mr. MCGREGOR: The DC-8's will be equipped by the end of the year but the rest of the fleet will take well into next year.

Mr. RHÉAUME: Am I correct in my assumption that at the present time Air Canada equipment compares favourably, in terms of these new things and its capabilities, to any other country in the world?

Mr. MCGREGOR: I think so. It is well balanced and well related to the route pattern on which we have to operate. It certainly is young in terms of years of service; even the Viscounts are still a modern short range airplane. They are the oldest of our three types. I do think that is a fair statement. I certainly would not quarrel with it.

Mr. RHÉAUME: And, as a nation, we have equipment which can take us anywhere in the world, if necessary, and the level of equipment of our national air lines, both Trans-Canada Air Lines and Canadian Pacific Airlines, is as good as any other.

Mr. MCGREGOR: We have as much range, and proportionate to our population I think a greater subsonic jet capacity than perhaps other countries.

Mr. RHÉAUME: I am following this line of questioning because I want to get on the record a response to what I think is an unfortunate statement made in the House of Commons to the effect—and this was at the time of Prime Minister Nehru's funeral—that Canada has no equipment capable of making a long overseas flight and so on. As I say, this was the statement that was made and I just wanted to get on the record the fact that the kind of equipment that both our major air lines in Canada has is every bit on a par with that of any other nation.

Mr. MCGREGOR: I am glad you brought up the point. I certainly agree with you. The fan-powered DC-8 is the longest range subsonic jet I know of. In fact, one was flown non-stop from Japan to Florida. It is true that it was flown as a sort of stunt, if you like. But, it has a great range capacity, and certainly I would think that either of those aircraft will do any non-stop flight that could be asked of any aircraft other than perhaps a very long range military type.

Mr. RHÉAUME: I have some other questions on another subject, fins, furs and feathers, but I will wait.

The CHAIRMAN: Would you continue, Mr. Prittie?

Mr. GRÉGOIRE: Mr. Chairman, If you would allow me, I would like to ask the permission of the committee to revert to a subject upon which I put questions yesterday, namely traffic and passengers.

When I spoke in respect of the use of luggage on Air Canada I told the committee I would bring back evidence. I have it here with me this morning, and if the committee would like me to present this evidence I will do so. It will take only three or four minutes, and then we might continue with our other work.

Mr. RHÉAUME: It is not your suitcase?

Mr. GRÉGOIRE: Yes, it is.

The CHAIRMAN: Would it take three or four minutes to show it?

Mr. GRÉGOIRE: I have it here with me.

Mr. PRITTE: That looks all right.

Mr. GRÉGOIRE: Well, come closer. I will present it to you, if you like, Mr. McGregor. This is a suitcase I bought about 1½ months ago and since that time I have used it only on T.C.A. I have never taken a taxi or train with it. I have travelled only between Ottawa and Bagotville, and I would like to show you the results of 1½ months of travelling with it on T.C.A.

Mr. MCGREGOR: I think I can see it from here.

Mr. GRÉGOIRE: Then, if you can see it from there you will see that.

(Translation)

Here you will see for yourselves. You can see here that it is smashed in. You will see that it is scratched there. The leather handle is torn away. You have two very substantial marks, or three, four and even five. Here this side also, you can see that it is all quite badly damaged. If this continues, I believe that in six months this suitcase will have to be discarded. If you wish to look at it more closely, Mr. McGregor, I can hand it to you.

(Text)

The CHAIRMAN: I think Mr. Grégoire has made his point.

Mr. RHÉAUME: Could we have the brand name of that luggage? I think it is very important to know where it was built.

Mr. MCGREGOR: That would be because of the roundel and the D.O.T. delivery apparatus; you know how it slides down.

Mr. KINDT: Mr. Chairman, as a footnote to Mr. McGregor's comment, may I say that my luggage did not come in at all. Mr. Grégoire got his suitcase, but mine is still enroute some place. It is supposed to be delivered to my office in due course. I was unable to shave this morning; however, we are hoping that it will be available soon. Apparently it missed the plane at Calgary, and I am wondering why. I was there half an hour before the plane departed and when I arrived here at Ottawa—and, if I may say so, there was plenty of time between connections at Toronto—it did not arrive. It might be that a little bit of checking on your sorting facilities and so forth would be beneficial in this regard in order not to inconvenience your passengers.

Mr. MACEWAN: Mr. Chairman, if I may add to these comments, in defence of Trans-Canada Air Lines may I say that I had a flight bag which came into the Ottawa airport with one side of the whole zipper ripped. I called T.C.A. and one of the officials picked it up at my office, got it repaired and brought it back. Also, inside was a broken hanger and it was repaired as well. So, I feel quite lucky.

The CHAIRMAN: Order, gentlemen.

(Translation)

Mr. CHAIRMAN: One moment, please, Mr. Grégoire had asked the privilege of showing his travelling bag. But would it not be possible to restrict questions of that nature, since we passed that item yesterday.

Mr. GRÉGOIRE: Yes, but with the restriction that we would deal with it this morning.

The CHAIRMAN: You made your point this morning already.

Mr. GRÉGOIRE: Mr. McGregor does not seem to be willing to admit that travelling bags get damaged. I show him a brand new suitcase purchased six weeks ago; it is already quite damaged, and since Mr. McGregor does not seem to admit that there was negligence—

I think that, at this time, it is our duty to ask questions on that matter. There is the proof!

The CHAIRMAN: Did Mr. McGregor deny that?

(Text)

Mr. MCGREGOR: Let me say that I do not think that any luggage can be in use and not show some signs of it. I am just trying to make the point that I do not think that T.C.A. mistreats unduly luggage that is in its care. But, I would defy anyone to invent a suitcase that is used between here and Bagotville at least once a week throughout the session and not show some signs of wear.

(Translation)

Mr. BEAULÉ: Mr. Chairman, on a point of order, I would like to point out to Mr. McGregor, if he would use his earphones, that the equipment used to carry the baggage at the Quebec airport, at Ancienne Lorette, is not adequate. When there is a large amount of baggage on a plane, the fellow is in a rush. The baggage is thrown in the carts; he hastily delivers it at the baggage office, and he hurries back to the plane to fetch more baggage. As a matter of fact, more baggage is broken up at that airport than anywhere else. I had a new wooden fiber suitcase, guaranteed for life, and it was completely scratched after the first trip. This would not happen if the Ancienne Lorette airport had more modern equipment to handle the baggage.

(Text)

Mr. MCGREGOR: Well, I do not know about Ancienne Lorette, but I know the passage handling equipment at major airports and, therefore, I presume that Quebec is provided with this facility through the terminal, which is D.O.T. I do not think that there is any question but that these roundels, with the chute of padding coming down inside does give the baggage a shaking up, if not worse. I would say the soft flight kits are quite often mishandled by the travelling belts and so on because they do not slide or go around corners as well as hard suitcases. The same applies to the soft leather ones.

(Translation)

Mr. BEAULÉ: Mr. Chairman, I repeat what I already said: I would like that the equipment at the Quebec airport, at Ancienne Lorette, be changed. The baggage is not damaged by the belts but by the employees who hastily throw the suitcases on the belt and immediately return to the plane to fetch more baggage because they do not have enough cars to carry the baggage of the same plane. They are in a hurry, they throw the suitcases on the belt and then return to the plane. Furthermore, quite often, the car is overloaded.

(Text)

The CHAIRMAN: Would you proceed, Mr. Prittie.

Mr. PRITIE: Mr. Chairman, is my understanding correct that we are on equipment and facilities?

(Translation)

Mr. GRÉGOIRE: Mr. Chairman, in conclusion what I would like to point out to Mr. McGregor is this: the baggage is handled in such a way that new scratches or some new damage is caused at every trip, so that no one can complain that his suitcase was destroyed in one operation, but in the long run. After one, two or three months, if you look at your bag, you realize that your baggage is not new anymore. It must be replaced after six months. Personally, after eight or nine months, I had to replace mine, because it was no longer useable. It is possible that Air Canada have received no complaints

because the damages resulting from one trip do not justify the laying of a complaint. But I think that Air Canada should take the necessary steps in order to improve the handling of baggage, the carrying of the luggage and if this matter falls under the jurisdiction of the Department of Transport, then I think he would have to study the matter when he comes here and we could question him about it.

(Text)

Mr. PRITTE: We are on page 15, equipment and facilities.

The CHAIRMAN: That is right.

Mr. PRITTE: Does Air Canada have all its maintenance and overhaul done by the company in Canada?

Mr. MCGREGOR: Basically, yes. When I say basically I am referring to airframes, engines and major components. But, there may be specialized instruments and things of this kind, compressor units and so on, repairs to which are carried out by the manufacturer in Canada.

Mr. PRITTE: I understand that formerly Canadian Pacific Airlines was having some of their maintenance work done outside of Canada and you were doing some of it here. Does the same situation exist?

Mr. MCGREGOR: Yes. We still overhaul their Conway engines, that is their DC-8 engines, but not outside Canada.

Mr. PRITTE: You are doing the DC-8 engines. Do they have any special work done outside of Canada?

Mr. MCGREGOR: I do not know whether they do now, but it was the case at one time.

Mr. PRITTE: Do you do all your own maintenance in Canada because you want the quality control or because you are a crown corporation and have in mind Canadian employment?

Mr. MCGREGOR: I think this is a combination of convenience, efficiency and quality control. Certainly we are interested in Canadian employment and would not willingly see that work given outside of Canada if we could help it. But, if you are doing your own maintenance and overhaul work and can bring the aircraft into a base and relate your operation of the aircraft to the capacity of the base so that it is not waiting to be taken into a base once it is out of service, which could be the case if you are using an outside contractor. It is very much easier to relate the operation to the overhaul capacity and not swamp the overhaul base at any time and not have it with slack periods. If you are in complete control of both the operation and the maintenance base it is much more beneficial.

Mr. PRITTE: I first became interested in these three aircraft when there were a series of letters and editorials in the *Globe and Mail* in respect of the cost of operating Canadian Pacific Airlines and Trans-Canada Air Lines at the time, and I think there was some allegation made that your costs were higher because you were doing it all on your own and in Canada. Is there any difference in the case of each of the two companies because one is done in Canada and the other may farm it out to Bristol or some other overseas firm.

Mr. MCGREGOR: There was a special case which applied to a Britannia aircraft but I do not know that the costs are much different if you are having it done outside or doing it yourself. But, I know the convenience is marked.

I presume that an overhaul outfit is doing it at a profit, which you do not charge yourself and, therefore, I would think that farming out would be more expensive, unless the farming out, as it was in these cases,—one was Japan; one Amsterdam and the other England—proved to be cheaper because the basic wage rates are lower than here.

Mr. PRITTIE: Will this continue to be the case as you obtain DC-9's and new types of aircraft?

Mr. MCGREGOR: Yes.

Mr. PRITTIE: You are still prepared to do all your own maintenance?

Mr. MCGREGOR: Yes.

Mr. PRITTIE: Thank you, Mr. Chairman.

The CHAIRMAN: Would you proceed, Mr. Hahn.

Mr. HAHN: Mr. McGregor, at page 16 it states:

Unfortunately, the problem of finding suitable airport accommodation at New York remained unsolved.

It seems to me pretty important, if we are going to compete with American and other air lines, that we have reasonable facilities down there.

What is your problem and what is the hope of a solution?

Mr. MCGREGOR: Well, we have Mr. Harvey the expert on this here. But, the problem was intense. First of all, to use its present correct name, the Kennedy airport already is extremely crowded and all terminal space adjacent to the main terminal building is spoken for. This drove us into entering into tentative negotiations with, I think, three other air lines, with the idea of sharing their terminal facilities. Meanwhile, were were loath to spend money in the present area, with a possibility of one of these areas in the near future, but eventually we became downright ashamed of the accommodation at Kennedy airport and recently let a contract and rented additional space. The whole area is in the process of renovation now and the scheduled date of completion is I believe, July 31. But, that is temporary. We are still trying to get a permanent arrangement with another carrier. There is not an inch on which to build our own airline accommodation. You see, U.S. airlines all build their own departure terminals there.

Mr. HAHN: Has there been any type of ganging up by the American carriers to prevent a foreign carrier from getting space there?

Mr. MCGREGOR: No. This is under the authority of the New York Port Authority. I would not say we have been ganged up on. But, I can assure you the costs relate very badly to our operation because, basically, we are operating two short routes out of New York, a distance of 300 or 400 miles, whereas most of the air lines based there are operating at least transcontinental and a good number trans-Atlantic, with some operating to the deep south. So, our terminal costs at New York will be very high in respect of the gross revenue of our two operations out of New York.

Mr. HAHN: My next question concerns development work which is going on in Britain on an automatic landing system, where the plane is landed automatically and flown right down to the runway.

Mr. MCGREGOR: Yes, and France.

Mr. HAHN: Are you people following that up or doing anything in that area?

Mr. MCGREGOR: Yes, I think we have kept ourselves very well informed on the automatic landing systems. I would like Captain Rood to speak about this because many of our aircraft are being delivered with basic wiring for the installation of such equipment if, as and when it is moved in. But, the automatic landing of an aircraft obviously is something that has to be foolproof, and there are two or three ways of doing this. One is to triplicate the system and another is to have an instantaneous hookup to the pilot in order that he can take over in the event of any equipment failure.

Have you anything further to add on that Captain Rood?

Mr. J. L. ROOD (*Director of Flight Operations, Trans-Canada Air Lines*): Mr. McGregor, I think you have covered it very well. We keep up with industry in this regard, and that is all I can say about it at the present time.

Mr. HAHN: Can you give any forecast of when systems such as this might be in commercial use?

Mr. MCGREGOR: I know you know your business, Mr. Hahn. As you know, there are variations of automatic landing systems, the so-called zero zero landing, which I do not think anyone is prepared to put much trust in, and then there is the automatic flare out, which is a pre-touchdown automatic action which is not as complicated as the automatic landing. These are fairly close together, and although I am not sure, I think automatic flare out already is in use on an experimental basis. However, I think it would be a rash man who would say these things will be functioning satisfactorily within 18 months or 2 years. SUD has done a lot of experimental work on this, and I have watched some of it going on there. Also, I think that Trident has an installation which has at least automatic flare out. I am referring to the de Havilland job in England.

Mr. HAHN: Does this reduce the limits in which aircraft can operate?

Mr. MCGREGOR: If everything is working, yes. But whether this would result in substantially lower limits as soon as this system was installed I would not be prepared to say. It is something that will have to be moved up on quite carefully.

Mr. MACEWAN: Mr. McGregor, is the new maintenance base at Halifax working out pretty well with your plans?

Mr. MCGREGOR: Yes. I have heard nothing to the contrary and I am sure it is.

Mr. MACEWAN: It would appear to be an ample building. Am I correct in my understanding that you do the overhauling and maintenance of Viscounts and Vikings at that location?

Mr. MCGREGOR: We do line maintenance work, not overhaul.

Mr. MACEWAN: I was interested in the new electronic system called ReserVec which has been set up by T.C.A., and I wonder if you could tell us briefly how that works. I understand there is a central registry which gives the necessary information to any of the offices. Could you explain that briefly to us?

Mr. MCGREGOR: Yes, as briefly as I can. Actually, the ReserVec central computer is located in Toronto and connected to all Canadian stations and offices by high quality circuits. At each office there is at least one transactor which looks like a pop-up toaster, and when a reservation is requested either across the counter or by telephone the agent puts pencil marks on a card which identifies the flight and the two points involved, the desired travel, the date and so on. This is done by a platen closing on the card and the current flows along the penciled marks and actuates the basic memory in Toronto which serves the flights. Then, the computer says yes, there is a seat, and in two tenths of a second there is a clonk and a half moon is cut out of the edge of the card. If no seats are available there is a similar clonk and it indicates there is a seat on the flight previous to the one desired or the flight after. But, like all instruments it is not completely foolproof because if pencil marks are placed wrongly on the card or written out in the wrong place on the card the memory does not fix this. This does speed up the information regarding the availability of seats on any flight leg greatly and removes any human error in this area. I think it is no better, like all computers, than the information it receives.

Mr. MACEWAN: This system has been set up in all your offices all over Canada?

Mr. MCGREGOR: It has been set up in all the offices across Canada and all over the United States with the exception of Tampa.

Mr. MUIR (*Lisgar*): I should like to ask a few questions in respect of this item. Do you repair all three types of aircraft at Dorval?

Mr. MCGREGOR: No, we just repair Vanguards and DC-8's.

Mr. MUIR (*Lisgar*): How many of each would you estimate you have had in for repair during the last year?

Mr. MCGREGOR: Aircraft are not repaired only when they have to be repaired. They are on a schedule of overhaul which is related directly to the number of hours of flying. If an aircraft has done so many hours it goes in for such and such a number of base check, and that is regardless of whether there is anything wrong with it or not. I would say all Vanguards and DC-8's have been in Dorval at least once during the last 12 months.

Mr. MUIR (*Lisgar*): You do not repair the Viscounts there at all?

Mr. MCGREGOR: No, sir.

Mr. MUIR (*Lisgar*): What has been the number of employees at Dorval during the past year? Could you tell us the difference between the figures in respect of employees at Dorval from last year and this year?

Mr. MCGREGOR: Just one moment. The only information we have is in respect of the total employees at Montreal, but we could have that broken down regarding the base.

Mr. MUIR (*Lisgar*): You have not got that information now?

Mr. MCGREGOR: We do have the total figures which include all departmental personnel if that is any help to you.

Mr. MUIR (*Lisgar*): I had in mind the number of employees at the repair depot, or at the repair shops. You have not got that information?

Mr. MCGREGOR: I could get it for you.

Mr. MUIR (*Lisgar*): What type of aircraft do you look after at Winnipeg?

Mr. MCGREGOR: We look after Viscounts and Dart engines at Winnipeg.

Mr. MUIR (*Lisgar*): Can you give me the number of employees for last year and this year at Winnipeg?

Mr. MCGREGOR: I would say the number as at December, 1963 on maintenance and overhaul was 847, in September, 1963, 854; in June, 1963, 855; in March, 1963, 852 and in December, 1962, 866.

Mr. MUIR (*Lisgar*): Are you going backwards in respect of those figures?

Mr. MCGREGOR: Yes, and giving the dates.

Mr. MUIR (*Lisgar*): In other words there were more employees at the end of December than there in June?

Mr. MCGREGOR: I was referring to December of 1962.

Mr. MUIR (*Lisgar*): There were 847 employees at that time?

Mr. MCGREGOR: There were 847 employees in December of 1963.

Mr. MUIR (*Lisgar*): Yes, and what was the figure in respect of December 1962?

Mr. MCGREGOR: The figure in that regard is 866.

Mr. MUIR (*Lisgar*): What is the number of employees at the present time, do you know?

Mr. MCGREGOR: As at April the number of employees was 845.

Mr. MUIR (*Lisgar*): Did you say 845?

Mr. MCGREGOR: Yes.

Mr. MUIR (*Lisgar*): How is that statement reconciled with a statement made in a letter the Minister of Transport has written to Mr. Thompson, who is going to be a new commissioner, to the effect that the Prime Minister of Canada has already indicated publicly that it is the policy of the government of Canada to do everything possible to maintain employment at this base and, if possible, to increase it? I should state also that during the last hearings of the special committee this assurance was given, and that for a period up to 1970 the number of employees would be at least maintained if not increased. The figures which you have just given us seem to indicate that that is not happening.

Mr. MCGREGOR: I think that your statement is quite incorrect. So far as I know the statement was made that the base would be maintained through to 1972. I do not think there was any mention made of employees.

Mr. MUIR (*Lisgar*): I think I can give you the quotation.

Mr. MCGREGOR: Yes.

Mr. MUIR (*Lisgar*): We can disagree in that regard, whether such a statement was made or not, but I can assure you that I can prove it was made not only in the House of Commons but to the special committee. We will leave that subject in abeyance for the time being.

I should just like to read from a paragraph in a telegram which was sent to the Prime Minister in which the sender has the following to say:

The worst fear of T.C.A. Winnipeg employees, that your assurance to Manitoba would be contravened is now happening. The closing of Winnipeg T.C.A. facilities has officially begun.

In Winnipeg there are manpower surpluses due to work shortages (created by low Viscount utilization). In Dorval there are manpower shortages due to work surplus. The obvious solution and in line with your commitment to Manitoba is, to ship work to Winnipeg, particularly Viscount work which is now done in Dorval under the guise of economic efficiencies.

I will break into the quotation at this moment to ask you again whether there are any Viscount aircraft being repaired at Dorval?

Mr. MCGREGOR: There are no Viscounts being repaired at Dorval whatsoever and there never has been any overhaul work done there on Viscounts or Dart engines. That last telegram sentence is a straight lie.

Mr. MUIR (*Lisgar*): Let us say the man was misinformed.

Mr. MCGREGOR: He is not an official of the union, either.

Mr. MUIR (*Lisgar*): Perhaps I may continue with this quotation as follows:

Winnipeg employees are now required to indicate their choice of filling Dorval vacancies. If the vacancies are not filled by Winnipeg personnel, the results will be lay-offs in Winnipeg. This very clearly is coercion, either move to Dorval or face termination of employment.

Do you agree with that statement?

Mr. MCGREGOR: The first part of the statement is correct, but this is not coercion.

Mr. MUIR (*Lisgar*): The fact is that this group of people whose employment has been terminated in Winnipeg have been given the choice to go to Dorval or get out; is that right?

Mr. MCGREGOR: The vacancies that exist at Dorval have been posted at Winnipeg and the employees have the right of bidding in under our agreement between the unions and the air line. I have the figures regarding the results of

that bidding-in. There were something like 57 bid ins for 20 vacancies at Dorval.

Mr. MUIR (*Lisgar*): Would you think the reason for that bidding in is that they are afraid they are going to lose employment in Winnipeg?

Mr. MCGREGOR: I think so, yes.

Mr. MUIR (*Lisgar*): You are willing to say that you think the employment in Winnipeg will drop still further?

Mr. MCGREGOR: As the employment relates to our Viscount operation, yes. I have no doubt that the Prime Minister had some other thoughts in mind, but what the implementation of those ideas will do or how much work they will produce I do not know.

Mr. MUIR (*Lisgar*): As far as T.C.A. is concerned you feel that the level of employment will drop?

Mr. MCGREGOR: Yes. Because the operation of Viscount time is dropping and the number of Viscounts in operation is dropping, and because the length of time between the overhaul of Dart engines is increasing, which tends to release employment, I think that is true. It is not our aim to employ more people at Winnipeg than that number for which we have useful work.

Mr. MUIR (*Lisgar*): In other words, when you phase out the Viscounts you see no necessity of Air Canada keeping the repair base in Winnipeg?

Mr. MCGREGOR: Are you referring to the time when Viscounts are out of operation?

Mr. MUIR (*Lisgar*): That is right.

Mr. MCGREGOR: That is correct.

Mr. MUIR (*Lisgar*): You do not see any reason for that repair base at all at that time?

Mr. MCGREGOR: No.

Mr. RHÉAUME: I should like to ask a short question.

The CHAIRMAN: I think Mr. Muir has been asking questions in respect of personnel regarding this item and I hope that we are not going to deal with personnel at this time.

Mr. RHÉAUME: I should like to ask Mr. McGregor several questions in relation to facilities offered by Trans-Canada Air Lines under what is known as the Fin Fur and Feather Club whereby Trans-Canada Air Lines makes available elsewhere in the world brochures in respect of various operations in Canada which can be visited through the use of T.C.A. travel. This program tends to be a sort of package deal offered to individuals coming to and going away from these lodges. The reason I am asking these questions in this regard is that I am not sure of the ground rules, and I should like to bring to the committee's attention a serious kind of problem that has arisen in respect of this specific thing in Winnipeg.

Mr. MCGREGOR: You are referring to something which happened in Winnipeg?

Mr. RHÉAUME: Before I make that specific reference I wonder whether you could give me some information in respect of the ground rules of this Fin, Fur and Feather Club?

Mr. MCGREGOR: I am not an expert in this regard but I know it is a sales gimmick that has been going on for two or three years, and I believe agencies are involved. I do know that we sponsor shows, particularly in the larger United States cities, basically plugging sportsmen attractions in Canada.

I am not familiar with the ground rules of which you speak.

Mr. RHÉAUME: The specific complaint I should like to bring to your attention for comment relates to a Canadian tourist operator in Winnipeg, Warren Plummer who operates Plummer lodges at various places in the north. I have been advised by this company that Trans-Canada Air Lines has refused to advertise their facilities, as they do in respect of any other Canadian facility, unless this tourist lodge company is prepared to pay ten per cent of the travel fee to the agent booking the flight. I hope you will correct me if I am wrong, but when the Fin, Fur and Feather Club was started the acceptance by Trans-Canada Air Lines of facilities for promotion was like a good housekeeping stamp of approval and T.C.A. would then use these brochures because the facilities met certain requirements and were perhaps regarded as first class operations. If the complaint from the Winnipeg firm is correct I can assure you it has nothing to do with the adequacy of the facilities offered but rather because the operator is not prepared to pay the ten per cent commission.

Mr. MCGREGOR: The ten per cent happens to represent the commission paid on group tours to agents under the A.T.C. regulations and, as such, is perfectly legitimate and does not go to T.C.A.

Mr. RHÉAUME: I am aware of that situation.

Mr. MCGREGOR: I do not think that T.C.A. ever set itself up as an examiner of the various camp facilities, or to make sure the fish were biting, and so on. I think we are prepared to distribute the brochures we get and accept them at face value.

Mr. RHÉAUME: Would you feel then in terms of facilities offered by companies overseas and so on and the treatment afforded to those companies should also be available to Canadian operations, and Canadian operations should be eligible for listings on equal terms by T.C.A. booths operated at fairs.

Mr. MCGREGOR: I would think so if they are prepared to meet the conditions, yes.

Mr. RHÉAUME: You feel that if the company refuses to pay ten per cent commission therefore Air Canada should not promote their brochures on a basis equal to any other companies brochures?

Mr. MCGREGOR: That is quite right because they do not know how the agent will be looked after.

Mr. RHÉAUME: But there is no money involved as far as Air Canada is concerned?

Mr. MCGREGOR: There is no money involved other than in respect of transportation.

Mr. RHÉAUME: What I am suggesting to you is that any company operating in Canada ought to have equal promotion through Trans-Canada Air Lines facilities overseas and in the United States and other fields, and I am not referring to commissions, as any other company, and the arrangement between travel agencies and tourist bureaus should be a matter to be settled between them and not a matter for Air Canada to consider. I do not think that Air Canada should get into the act, so to speak; what I am suggesting, Mr. McGregor, is that if I were a tourist operator and prepared to pay the travel agency, let us say ten per cent, for booking flights to my area I am not sure that is really any business of Air Canada's and if Air Canada is going to operate booths to promote travel Air Canada should not worry about what I am doing and what my relationships are with my agent.

Mr. MCGREGOR: I suppose the answer to your question Mr. Rhéaume, is that we have two choices in this regard. Either we can stop entirely trying to promote sportsmen travel into Canada, which we naturally are doing, or we can require the people whose brochures we do handle to meet the A.T.C. regulations in respect of the ten per cent agent's fee.

Mr. RHÉAUME: The ten per cent charge is in respect of group travel.

Mr. MCGREGOR: That is right.

Mr. RHÉAUME: It is not a charge in respect of individual travel.

Mr. MCGREGOR: That is right.

Mr. RHÉAUME: So by insisting upon the ten per cent commission for the travel agent T.C.A. is in effect insisting on higher commissions than ordinary; is that right?

Mr. MCGREGOR: That is not right if it applies to a group.

Mr. RHÉAUME: I am referring to individual travel.

Mr. MCGREGOR: The charge in respect of individual travel is not ten per cent. I believe the charge is seven per cent, if I remember correctly.

Mr. RHÉAUME: In the case to which I have referred there is more involved than just the ten per cent charge. I have given your officers the correspondence covering the situation in detail. This is an important complaint because it involves a particular operator who moves quite a few hundred United States passengers back and forth across the border into and out of Canada. He is sufficiently irritated by this situation that he is going out of his way to transport people by other air lines services than Air Canada. He is doing this for spite and says so, but as a Canadian it bothers him to do so. He has indicated that if Air Canada is going to promote United States lodges by brochure he is going to kick the giant in his own little way.

Mr. MCGREGOR: I would suggest that if he is arranging for group travel he is still paying the ten per cent whether he is using T.C.A. or another line.

Mr. RHÉAUME: The operator to whom I have referred operates one Canadian company that does not use the services of travel agents but prefers to spend its own money on its own promotion work. I am wondering whether the whole business of the Fin, Fur and Feather Club would bear some sort of examination in an attempt to see the direction in which it is moving.

Mr. MCGREGOR: That might well be the case and we will certainly have a look at it. You have indicated that the correspondence is in our possession?

Mr. RHÉAUME: Yes.

Mr. MCGREGOR: We certainly will have a look at the situation. I think the alternative would be far worse from a Canadian standpoint. That is to shut the operation down.

Mr. RHÉAUME: The reason I have made reference to this situation at this time is that I know this company very well and that it does a great deal of good business in Canada with most of its money being spent in respect of air transportation in view of the fact they are bringing a great number of people into the Arctic. I think the operator is an important and reliable man and do not feel his complaints are frivolous. I will pursue this subject personally at a later date. That is all, thank you.

Mr. MCGREGOR: Thank you.

The CHAIRMAN: Mr. Tucker, do you have a question?

Mr. TUCKER: Mr. Chairman, the question I wish to ask Mr. McGregor may have already been asked and answered. If that is the case I hope you will indicate that fact to me.

I should like to know whether T.C.A. has experienced any inconvenience and loss of revenue as a result of the fact that passengers do not reconfirm their intentions of using the services but do not cancel their reservations?

Mr. MCGREGOR: Yes.

Mr. TUCKER: These individuals do not reconfirm their intention of using their reservations?

Mr. MCGREGOR: In most cases the individuals are required to reconfirm or lose the reservation. That is not the difficulty of which we are speaking, Mr. Tucker. It is in the case of an individual who makes a legitimate reservation and because of circumstances does reconfirm but does not show up for the flight which causes the expense to the operation in the case of a crowded flight, of course, because this means a seat goes empty when a revenue passenger could have been using it but is denied the privilege of doing so.

We do have some figures on percentages of no-shows available, all classes combined, on a quarterly basis. In the first quarter of 1963 there was 6.8 per cent of our reserved passengers who did not show up. In the second quarter there were 5.8 per cent, in the third quarter 4.5 per cent and in the fourth quarter 5.2 per cent.

The corresponding figures for the industry in North America are six per cent, 6.5 per cent, 6.8 per cent, and we do not have the figure for the fourth quarter. The corresponding figures in respect of American Air Lines for the first three quarters are 5.1 per cent, 6.4 per cent and 6.4 per cent; in respect of T.W.A., 6.6 per cent in the first quarter, 6.6 per cent in the second quarter and 8.2 per cent in the third quarter. It would seem from those figures that we are in the area of the industry's average; somewhat better in that we had a somewhat lower percentage of no shows, and better than the two largest transcontinental carriers in the United States that I mentioned.

Mr. TUCKER: What do you estimate the loss of revenue to be roughly?

Mr. MCGREGOR: I do not believe we have ever attempted to estimate the loss of revenue because it would depend whether the seat made vacant by a no-show could have been used by a revenue passenger and that is not too easy to determine.

Mr. TUCKER: There is a definite loss in this regard?

Mr. MCGREGOR: Yes, there is an unquestionable loss.

Mr. Grégoire mentioned to me on the way up to Ottawa on Sunday night that he had asked for a reservation, had difficulty getting it, and then found there were empty seats on the flight.

Mr. TUCKER: I have experienced that situation as well.

Mr. MCGREGOR: Everybody has experienced this situation. Those empty seats are primarily the result of no-shows.

Mr. TUCKER: I suppose a solution to this difficulty would involve the traveling public being a little more courteous and thoughtful of the other individuals?

Mr. MCGREGOR: I think that is true. I think Canadians probably are a little bit better behaved in this area, as these figures would indicate, than perhaps other nationalities. One would not dare to forget to cancel an appointment with a doctor, an oculist or a dentist if one cannot keep the appointment because his timetable is crowded, but I do not think the same attitude has penetrated into the public's mind in respect of air lines reservations.

Mr. TUCKER: There is not much your officials can do about this situation?

Mr. MCGREGOR: There is not much we can do except continue, and this is regarded by many people as a nuisance, the reconfirming procedure. This represents quite a safeguard against the occurrence of this no-show situation.

The CHAIRMAN: We are now discussing the item on equipment and facilities. I realize it is very easy to stray but I hope we will confine our questions to that item.

I have you on my list as the next questioner, Mr. Rock?

Mr. ROCK: I have no questions to ask.

Mr. KINDT: Mr. Chairman, I should like to ask Mr. McGregor to express the views of the air lines toward the abandonment of the first class category

and the adoption of an entirely economy category in respect of DC-8's and Viscounts. I ask this question perhaps because this is a country where everyone is equal with members of parliament being at the bottom of the totem pole, having to travel economy. If everyone travelled economy a lot of headaches and problems on the part of the air lines officials would then disappear. Whenever I attempt to get an economy reservation I am unable to do so and must reserve a first class seat and have to pay the difference. I think there is a problem in this regard resulting from the adoption of a category which does not add additional revenue to the air lines, if I read your report correctly. In other words, if all the space in your aircraft was devoted to an economy category your revenue could be expected to exceed that which you derive from the first class category at this time; is that right?

Mr. MCGREGOR: I would not be sure of that; in any event, to refer to the basic problem, I suppose everybody is equal but some people are more equal than others. The fact is that one major carrier in the United States quite recently adopted a one class policy. I am referring to United Air Lines. That one class is really neither economy nor first class but half way between the two in the matter of seating dimensions, space between seats and price. The officials of United Air Lines suggest that this is a fine thing but, their arch-rival, American Air Lines, which flies parallel on several routes indicate this is a fine thing for it because the potential first class passenger is not satisfied with the compromise quality of service, and their economy passenger is not satisfied with the slightly higher price. American Air Lines claims, having retained the two class service, it is getting better traffic since United have moved to the one class operation.

Quite frankly, we are keeping a very careful watch on this situation. We have even done a pricing on a one class service in respect of our Viscount aircraft. All I can assure you is that we are looking at this very carefully, but there is argument on both sides, as there is in respect of most of these things.

Mr. RHÉAUME: Just as a point of interest, Mr. Chairman, United Air Lines announced today it was dropping the one class passenger service and adopting a three class passenger service. This announcement appeared in today's press reports.

Mr. KINDT: What did you say?

Mr. MCGREGOR: The example I have cited has suddenly ceased.

Mr. KINDT: Did you say they were adopting a three class policy?

Mr. RHÉAUME: The announcement suggests the company will introduce a three class single aircraft service on flights to Chicago, Cleveland, Philadelphia and other places.

Mr. MCGREGOR: I do not go along with them in that idea.

Mr. BASFORD: Mr. Chairman, I should like to refer again to questions in respect of the New York terminal. Was the company offered space by the port authorities some years ago?

Mr. MCGREGOR: Do you refer space on which to erect a building?

Mr. BASFORD: Yes.

Mr. MCGREGOR: I think you may be right in that regard.

Mr. BASFORD: What was the cost involved in that offer?

Mr. MCGREGOR: I have no idea of the cost involved. I know the cost of an individual building in the area was in the multimillion dollar area.

Mr. BASFORD: What does the company intend to spend on renovations of its existing premises?

Mr. MCGREGOR: The sum of \$150,000.

Mr. BASFORD: What is the life expectancy?

Mr. MCGREGOR: The life expectancy in that regard is 18 months.

Mr. BASFORD: What will happen at the end of the 18 month period?

Mr. MCGREGOR: I understand we will be in with somebody else. Mr. Harvey has three balls in the air at the present time.

Mr. BASFORD: I understand there is no definite decision in this regard but can you assure me that there will be new terminal facilities in 18 months of some kind or another?

Mr. MCGREGOR: I do not think I can give you that assurance. I will assure you that we will do our utmost to provide those facilities.

Mr. BASFORD: What is the company doing in respect of hovercraft with particular application to the Vancouver-Victoria line?

Mr. MCGREGOR: We are not very entranced with the hovercraft. Many of us went on experimental flights when it was here last year but none of us flew up the Lachine rapids as the aircraft did, if you call it that. But, we do not think that on a standard scheduled run of that kind it has a good potential.

Mr. BASFORD: Is the company spending any money on research or development?

Mr. MCGREGOR: Not on research or development. We confine ourselves to engineering analysis of products that are developed and engineered by other firms. We never have done any specific research on our own and I do not know of any air line which has.

The CHAIRMAN: I would ask members to please note that it is essential that members speak into their microphones because otherwise we cannot get a translation.

*(Translation)*

Mr. BEAULÉ: Mr. McGregor, if I understood correctly a while ago, the baggage maintenance equipment inside stations is under the jurisdiction of the department of Transport, and in the airport yards, the carts, cars and tractors belong to Air Canada?

*(Text)*

Mr. MCGREGOR: That is correct.

*(Translation)*

Mr. BEAULÉ: Coming back to Ancienne-Lorette, would it not be possible to obtain more modern equipment for the handling of baggage?

*(Text)*

Mr. MCGREGOR: We use the towed trailer at every airport. I do not know of anything more modern.

*(Translation)*

Mr. BEAULÉ: At Ancienne-Lorette, Mr. McGregor, they have a tractor to which is tied a large box. That box is filled with luggage which is taken to the baggage counter, and they go back to the plane to get more luggage and bring it to the counter. At Ancienne-Lorette, we see few of those carts you mentioned. At that airport, it is a large box attached to a tractor.

*(Text)*

Mr. MCGREGOR: Well, I must say it is some time since I have been in Quebec airport. Can you give us any information on the availability of baggage trailers? I would be glad to look into this for you. If they are short or are not there at all we certainly will remedy the situation.

*(Translation)*

The CHAIRMAN: Do you wish to ask another question, Mr. Beaulé?

Mr. BEAULÉ: No, it is a question concerning the personnel.

The CHAIRMAN: Mr. Balcer.

(Text)

Mr. BALCER: Mr. McGregor, I would like at the present time to know if the company is engaged in any discussions with helicopter manufacturers in respect of the possibility of a short haul service between, say, Ottawa and Montreal or Ottawa and Toronto?

Mr. MCGREGOR: Well, Mr. Balcer, we keep ourselves in continuous touch with the technical developments of helicopters and we are continually hopeful. We price the operation but are continually frightened away by the high operating cost per seat mile of any helicopter we know of up until now. But as I said, we remain hopeful that the economies will improve.

Mr. BALCER: But you have placed yourself in the position that if there is a financial possibility of operating a fleet of helicopters that you will be able to compete with others?

Mr. MCGREGOR: Oh yes.

Mr. BALCER: You are interested in that field if and when it becomes economically feasible.

Mr. MCGREGOR: Perhaps I should say this. We are interested in anything that will produce a condition where we can pick up passengers and deliver them closer to their basic destination, such as city centres and so on, and which will improve the over-all time and not deteriorate the relationship between revenue and expense.

Mr. BALCER: I recall when I was minister of transport one company invited me for a trial run between the Chateau Laurier and the Queen Elizabeth hotel in Montreal. The plan at the time was for this to carry about 26 people and it would make the trip between the two hotels in 40 minutes. However, although it sounded very interesting it never materialized.

Mr. MCGREGOR: Exactly. Most of the organizations that become terribly interested in helicopters, when they really get down to pricing the operation carefully, find, as we have over the years, that it does not make good sense. As you know New York air lines operate helicopters, and they have an operation between the three New York terminals and downtown Manhattan. I think that is the most highly subsidized air operation in the world. Also, Sabena have done some extensive experimenting in this area, basically charging off the cost of helicopter operations to their transatlantic operation which it feeds. But, the fact is by the very nature of the best helicopters tend to be very expensive because they are completely dependent on the mechanical integrity of the rotor heads, even if there is more than one, and these require very frequent close examinations and overhaul.

There are other reasons why it is expensive. I suppose over the years, as the basic size of the vehicle increases and better techniques are developed for rotor rotation we may see the cost come properly into line. You may remember that there was another firm which investigated very strongly this possibility and they obtained a licence to operate between Dorval and downtown Montreal. However, they never started.

The CHAIRMAN: Is the section headed "equipment and facilities" carried. Some hon. MEMBERS: Carried.

The CHAIRMAN: "Personnel" is next.

Would you proceed, Mr. Prittie.

Mr. PRITTIE: Mr. McGregor, in looking at a recent issue of *In Flight* I noted an article about the training of stewardesses. It mentions a period of five weeks

and how much they are paid per month while training, and it ends up with this statement:

While she is engaged in a demanding yet rewarding occupation, the average T.C.A. stewardess flies only about 18 months before exchanging her wings for a wedding ring.

Do you require the young ladies to resign when they become married?

Mr. MCGREGOR: Yes.

Mr. PRITTE: Do you make this requirement immediately?

Mr. MCGREGOR: If we catch them at it, yes.

Mr. PRITTE: It seems to me that you must spend quite a bit of money in the training of these girls and as a result of them becoming married in a very short time I would think you would lose the total value of your investment.

Mr. MCGREGOR: It is twice as long as it used to be.

Mr. PRITTE: Is this policy followed in respect of other air lines, that they must resign when they get married?

Mr. MCGREGOR: I cannot be sure of that but I do not think so.

Mr. PRITTE: Have you ever thought of changing your policy in that respect?

Mr. MCGREGOR: Yes, and decided against it.

Mr. PRITTE: You do not wish to elaborate?

Mr. MCGREGOR: I would prefer not.

Mr. PRITTE: At what age are your air stewardesses required to stop flying?

Mr. MCGREGOR: Perhaps Mr. Benson would answer that question.

Mr. D. W. BENSON (*Assistant Director, Passenger Services, Trans-Canada Air Lines*): When the stewardesses are hired they agree their services will terminate at 34 years of age.

Mr. MCGREGOR: But in what age brackets do we accept them as candidates?

Mr. PRITTE: That is in the report; it says up to 27.

Mr. BENSON: Age 26 is the maximum age at which we will accept them.

Mr. PRITTE: I note that the American air lines require them to stop flying at the age of 32.

Do you have any other work for the young ladies who wish to remain in the company afterward?

Mr. MCGREGOR: It depends on their qualifications. We would like to continue their employment if they are able to do other jobs. There have been a certain amount of transfers into the passenger agent field and many of them, through their previous training, are fitted for that type of work. Because they cease to be an effective stewardess there is no reason why we should sever our relationship with them.

Mr. PRITTE: I am quoting now from an article which appeared in the *Ottawa Journal* on December 5 of last year, which says:

Trans-Canada Air Lines is being forced to concentrate its stewardess recruiting program in Europe to fulfill a policy of hiring only bilingual girls.

Are you still recruiting in Europe in order to fulfill this requirement?

Mr. MCGREGOR: I think so. However, our bilingual requirements are confined to the Dorval base.

Mr. PRITTE: Is your school not turning out a sufficient number of bilingual stewardesses so that you do not have to go to Europe to recruit?

Mr. MCGREGOR: Mr. Harvey has drawn my attention to the fact that our basic importation of stewardesses is confined to the trilingual group, which Mr. Benson referred to yesterday, and those are required basically for the trans-Atlantic operation to Europe. I think the three languages usually are French, English and German. There were a total of 14 for the year 1963.

Mr. PRITTIE: I can understand you hiring in Europe if you require German speaking stewardesses although I am sure there are many Canadians who could do that. But, the article suggested that it was for those who could speak French and English.

Mr. MCGREGOR: Well, I think that is wrong. I think we can get those who can speak French and English locally, with a struggle. We did a tremendous amount of advertising; we even made a very seductive movie of the life of a stewardess, and even that did not produce the flow of applicants we had hoped for.

Mr. PRITTIE: How many groups have been through your bilingual training school or your bilingual course for the flight personnel?

Mr. BENSON: Two groups, with a total of 51 flight attendants.

Mr. PRITTIE: Are you satisfied that those who did not speak French initially are really bilingual now?

Mr. MCGREGOR: Yes. Fluency is a relative term, but we feel they can carry on a satisfactory conversation in either language in the areas to which they are assigned. I have no doubt that their speech is accented either way, depending on which is the mother tongue.

Mr. PRITTIE: I understand you have a contract with the school, but do you give them a company examination to satisfy yourselves on their ability?

Mr. MCGREGOR: Yes.

Mr. PRITTIE: I have one other question.

Last year I put a question on the order paper in respect of pilots who had been furloughed, and part of the answer was:

In so far as the May, 1963 group is concerned, no definite date for recall was indicated, although it is anticipated that this group will be required during 1964.

Are you getting back some of these furloughed pilots now?

Mr. MCGREGOR: Yes, many of them.

Mr. KINDT: There was a time, Mr. McGregor, when air lines gave a preference to nurses when hiring. Is that policy being continued?

Mr. MCGREGOR: That was a requirement at one time.

Mr. KINDT: But am I correct in assuming that you pay no attention to it now?

Mr. MCGREGOR: We will give a preference.

Mr. KINDT: Is it because of the unavailability of nurses?

Mr. MCGREGOR: We give a preference but it is not a requirement.

(Translation)

The CHAIRMAN: Pardon me, Mr. Berger, I had written Mr. Matte's name on my sheet.

Mr. BERGER: Mr. McGregor, I must say first of all that I am pleased to see that of late you are paying attention to the cause of bilingualism. In the riding which I represent and which is approximately 99 per cent French-speaking, a few young girls were interested in becoming air stewardesses. In particular, a young lady from my county studied in a private school in Toronto and I understand her marks were good. She applied for a position with your

firm, and for reasons which I could never find out, she was not accepted. She wrote to find why, but she did not receive a satisfactory answer. I wrote personally, and I was told that it was not in the best interests of the young girl to tell her why she was not acceptable by Air Canada as an air stewardess. This young lady is somewhat disappointed. I think that she is fairly bilingual, although she evidently speaks French better. She told me that she could resume studying English if that was the reason why she had been refused. She has a fine personality. I have come to the conclusion that the young lady, who is quite disappointed to have been rejected, is wondering why she was refused by Air Canada as an air stewardess. She is under the impression that there might be some discrimination, and that the English speaking stewardesses who speak some French are preferred to the French-speaking stewardesses who speak English fairly well. She spread that feeling in her surroundings, and I well understand her. Now, you girls who could become excellent air stewardesses do not wish to apply with Air Canada because they say that in spite of the bilingualism which you advocate and which you apply at present, there still remain some discriminatory measures.

Would it be possible to find out why this young lady was refused, so that she will not delude herself anymore and say to others why she was not accepted? Why was she not told the real reason? I am somewhat mystified, and I would like to know the reason, so I can inform other pretty, efficient and intelligent young French-Canadian girls who could become quite an asset to the personnel of Air Canada.

(Text)

Mr. MCGREGOR: Can you tell me whether the applicant in question had a medical examination?

(Translation)

Mr. BERGER: I am practically convinced of this. She had already been examined, on her own, by her family doctor, and everything seemed to be fine in that respect. She herself wanted to know if that was the reason, and she asked if whether it was a matter of health, but they never gave her an answer. They said that it was not in the best interest of the young lady and that such information was not being given.

(Text)

Mr. MCGREGOR: I do not know anything about the case you are mentioning but I do know that if she had a company medical that might provide the answer to your question, and that is the only answer I can think of why she would not be told. All our flight crew, both cabin personnel and pilots, are given particular attention in respect of medical examination from a psychological point of view, and their ability assessed in respect of, to be colloquial, keeping their heads in an emergency. If the girl to whom you have made reference was found wanting in this area, and this is only conjecture on my part, it would be good business either for the company, or for the girl, for the officials to say we have examined you medically and have found you are potentially unstable.

Mr. MCGREGOR: If you would like to have us check into the specific case we will be glad to do so. Certainly there is no discrimination involved of which I am aware. In fact the great proportion of our total bilingual flight attendants have French as their mother tongue.

Have you anything to add to this?

Mr. BENSON: One basic problem in this regard is that we must interview 20 girls before hiring one. We interviewed 4,000 girls this year and hired a total of 200. Of the 200 girls hired 189 are basically French-speaking girls. Another

impossibility is involved in attempting to explain to 3,800 girls why they were not hired.

Mr. MCGREGOR: What you are suggesting is there is a high proportion of rejections for what we believe to be good reasons?

Mr. BENSON: There are 19 rejections out of 20 interviews.

Mr. BASFORD: In respect of the bilingual schools, what has been the reason for the two in 51 failure record?

Mr. MCGREGOR: You are referring to the failures in the bilingual training schools?

Mr. BENSON: When a flight attendant has not reached the required grade that flight attendant is told and given a period of time in which to obtain additional instruction and reach a passing grade. Of the 51 people trained this year five did not reach the required minimum and we gave them an opportunity to come up to that minimum. Of the five I think three have now attained the grade, so there are only two failures.

Mr. BASFORD: What happens to those that do not pass?

Mr. MCGREGOR: I think they are transferred out of the Montreal base, are they not?

Mr. BENSON: They are ultimately transferred out of the Montreal base.

Mr. BASFORD: To where are they transferred?

Mr. MCGREGOR: Perhaps they are transferred to Winnipeg or Vancouver.

Mr. BASFORD: Of course, to be transferred to Vancouver would be an improvement.

Mr. MCGREGOR: I suppose there is a question in that regard.

Mr. BASFORD: Are those individuals restricted to certain flights.

Mr. MCGREGOR: I assume they would be put on the regular block assignment.

Mr. BASFORD: To which routes are unilingual stewardesses restricted?

Mr. MCGREGOR: I suppose they could operate as far east as Winnipeg.

Mr. PRITTE: Perhaps they could operate as far east as Toronto.

Mr. MCGREGOR: They could perhaps operate as far east as Toronto.

Mr. BASFORD: Their future with the company as a result is quite limited?

Mr. MCGREGOR: That is right, but all they have to do is learn to speak French.

Mr. BASFORD: Some of us have great difficulty doing that.

Mr. MCGREGOR: Yes, and I am one of those individuals.

Mr. BASFORD: Have any personnel been fired by reason of an inability to learn to speak French?

Mr. MCGREGOR: Not that I know of.

Mr. BENSON: No.

Mr. MCGREGOR: The answer is no.

Mr. BENSON: None will be fired because of that inability.

Mr. MCGREGOR: Our turn over is sufficient to keep us busy just to hire sufficient stewardesses whether they be unilingual or not.

Mr. RHÉAUME: I should like to ask several questions in respect of a subject other than that involving bilingualism. I should perhaps check with the Chairman to make sure we are now discussing the item on personnel and that I am entitled to ask questions in respect of the board of directors, or is this the appropriate place to deal with that matter?

Mr. MCGREGOR: They would not be flattered, but I guess it would be all right.

Mr. BALCER: I should like to ask what your policy is in respect of male stewards. Are you increasing the number of male stewards in your employ, or do you use male stewards only on trans-Atlantic flights?

Mr. MCGREGOR: I think we have one purser or purser steward on all DC-8 flights.

Mr. BENSON: That is also true in respect of some Vanguard flights.

Mr. BALCER: I have received some inquiries, mainly from male stewards, wanting to find out whether there is any real future in this field. Is it your policy to increase the number of male stewards on DC-8 flights or is it a policy to have one male steward and three or four stewardesses in this regard?

Mr. MCGREGOR: I think we now have two male stewards on trans-Atlantic flights; is that not right?

Mr. BENSON: We also have two male stewards on flights to the south.

Mr. MCGREGOR: We have two male stewards on trans-Atlantic flights and on DC-8 flights to the south. That is, to the Caribbean and so forth. They are sometimes required to cope with the alcoholic situation.

Mr. BALCER: They are very good.

Mr. MACEWAN: I should like to ask a supplementary question. A change was made in the number of female stewardesses on Viscounts and Vanguards last year, Mr. McGregor; is that correct?

Mr. MCGREGOR: Yes.

Mr. MACEWAN: Is there now one stewardess on Viscounts and two on Vanguards at the present time?

Mr. MCGREGOR: I think that is basically correct.

Mr. MACEWAN: Yes. Is that policy working out well?

Mr. MCGREGOR: Yes. I will ask Mr. Benson to answer that question.

Mr. BENSON: The policy is to have one or two stewardesses on Viscounts depending upon the requirement to serve meals; whereas in respect of Vanguards there are four female stewardesses and often one male steward on flights to Bermuda and the Caribbean. On domestic Vanguard flights there are three female stewardesses.

Mr. MACEWAN: The policy is to have three females and one male on Vanguard flights?

Mr. BENSON: That is not always the case in respect of Vanguards.

Mr. MACEWAN: Do you find the work is being done as efficiently by a lesser number of stewardesses?

Mr. BENSON: They all must work a little harder and they do not accomplish perhaps as much; however, the service is more efficient.

Mr. MCGREGOR: They do not get in each other's way.

To supplement the answer to Mr. Balcer's question, I think there is a continuing requirement for male cabin attendants. Is that right Mr. Benson?

Mr. BENSON: That is very definitely so.

Mr. KINDT: I have a supplementary question.

The CHAIRMAN: Have you concluded your questions Mr. MacEwan?

Mr. MACEWAN: Yes.

The CHAIRMAN: I have Mr. McBain's name on my list as the next questioner unless your question is very short, Mr. Kindt.

Mr. KINDT: I have a very short question I should like to ask. We are very hopped up about this question of bilingualism, and it seems as though both languages have to be used regardless of the location of the aircraft in Canada or elsewhere. After leaving Calgary last night announcements were given in

both French and English in spite of the fact that half of the passengers on the DC-8 were Chinese. Apparently there was something big going on in Toronto.

Mr. COWAN: There always is.

Mr. KINDT: I think the announcements might better have been given in Chinese rather than French. I am sure that the Chinese got along all right because most of them I imagine can speak English. Are we not overdoing this bilingualism effort when applied to all parts of Canada including those areas where everyone understands English? I know that I am perhaps touching upon a subject which we have discussed at our bilingual meetings out west, nevertheless it is a little disturbing to some of the people in that area. No one objects very strenuously in this regard but many feel it is a useless practice.

Mr. BEAULÉ: I have a short question I should like to ask.

Mr. ROCK: I do not think anyone has had this situation forced upon them in that manner.

Mr. KINDT: That policy is being forced in respect of air lines services, and if the air lines wish to drop that practice in respect of those areas to which I have referred I think it would be appreciated.

Mr. BALCER: That does not accurately represent the type of report I have received from my friends all across Canada. I think the Trans-Canada Air Lines officials should be congratulated for the effort they have made in this regard, and I should think the policy should be continued.

Mr. FISHER: I think this is a great tourist attraction.

The CHAIRMAN: Order.

Mr. MCBAIN: I should like to ask Mr. McGregor one question, Mr. Chairman.

Mr. MCGREGOR: If I may, Mr. McBain, I should just like to comment on the situation to which Mr. Kindt has referred. I would think the bilingual announcement on a flight out of Calgary was very unusual. We attempt to relate our use of the two languages basically to the area where they are both prevalent.

Mr. KINDT: My point is, Mr. McGregor, that I feel this policy should be adhered to in those areas.

Mr. MCGREGOR: We try to adhere to this policy but somehow or another a bilingual stewardess got on a Calgary flight.

Mr. KINDT: I am in favour of bilingualism and have no objection to your policy in that regard.

Mr. MCGREGOR: I understand your point of view and suggest this is what we are attempting to do.

Mr. BALCER: I should just like to say that while travelling in the other provinces of Canada and hearing bilingual announcements I feel very good, and I hope that this policy will be carried on, because for a French Canadian to be in British Columbia on a Canadian aircraft it is very pleasant to hear French, and it makes one feel at home all across Canada. I think that is perhaps the purpose of the policy of T.C.A. to make all Canadians feel at home on Canadian aircraft. I think T.C.A. should be encouraged and congratulated in their efforts in that direction.

Mr. MCGREGOR: Thank you, Mr. Balcer.

Mr. BERGER: I would second that statement very strongly.

Mr. MCBAIN: Can you tell me how many stewardesses are employed by Air Canada?

Mr. MCGREGOR: Yes. There are 565 stewardesses employed by Air Canada.

Mr. MCBAIN: Does that figure include those who are in training?

Mr. MCGREGOR: No. That figure applies to stewardesses assigned to line service.

Mr. MCBAIN: Thank you.

Mr. RHÉAUME: I wonder whether I may be allowed to ask a question on this subject?

The CHAIRMAN: I thought you had concluded your questions in respect of personnel, Mr. Rhéaume?

Mr. RHÉAUME: I have not even started yet, Mr. Chairman.

The CHAIRMAN: Mr. Rhéaume, I understood you wanted to ask questions in respect of the board of directors rather than personnel.

Mr. RHÉAUME: I thought the item personnel was the appropriate one to discuss questions in respect of the board of directors?

The CHAIRMAN: I thought we would leave those questions until the end of our discussion of this item.

Mr. RHÉAUME: If we are finished with the girls, perhaps we can continue.

(Translation)

The CHAIRMAN: Mr. Beaulé.

Mr. BEAULÉ: A rather short question. I want to ask Mr. McGregor if it would not be possible to provide for another employee at the ticket office of the Ottawa Air Terminal during rush hours, especially on Fridays when there are two or three consecutive flights?

(Text)

Mr. MCGREGOR: Are you referring to the airport or downtown?

Mr. BEAULÉ: I am referring to the ticket counter at the airport.

Mr. MCGREGOR: It is a basic policy of the company to relate the provision of agents to the forecast work loads. Do you suggest that you have encountered great delays?

(Translation)

Mr. BEAULÉ: Yes, especially—

(Text)

Mr. MCGREGOR: I have never seen less than four people behind that counter.

(Translation)

Mr. BEAULÉ: One must come on Fridays, between five and six o'clock. There is only one employee at the ticket office. They have two wickets but only one employee working at this particular service between five and six o'clock as the other ones look after the luggage desk. I have already seen, last week for instance more than ten people waiting for their ticket at the ticket office. Only one employee was in attendance at the time. Especially there was a passenger leaving for Washington and others for New York, so it takes quite some time to issue tickets of that sort.

(Text)

Mr. MCGREGOR: Our system check on this point indicates that 90 per cent of customers are serviced within two minutes at airport ticket counters. I do not want to sound rough about this, but if they get their tickets before the flight is called, they are all right.

Mr. BEAULÉ: I wish to specify—only on rush hours.

(Translation)

I only want to mention the rush hours. Would it not be possible, say on Fridays, to have an additional employee at that particular time, because I know that about two weeks ago, it was necessary to delay a plane owing to the time spent at the ticket office. A number of passengers, obtained their tickets there, and as they were unable to obtain their tickets on time, the departure of the plane had to be delayed.

(Text)

Mr. MCGREGOR: I certainly would agree that the counter is understaffed if it causes a flight delay, and this would not be normal I would hope. There is no difficulty about putting on sufficient staff, in spite of the cost, to avoid that sort of thing. This is assuming that all the passengers do not arrive three minutes before flight time.

The CHAIRMAN: Mr. Rhéaume.

Mr. RHÉAUME: Mr. McGregor, I want to open up with you an area for discussion on what I think is one of the most important things that has been suggested—from my point of view anyway—in relation to the board of directors and indeed in relation to the committee hearings. I want to read into the record a couple of statements made in an editorial in the *Toronto Globe and Mail* and ask you to discuss these with the committee. The editorial was dated March 14, 1964, and I will read a few excerpts:

A tradition curious for a democracy has grown up in this country which permits vast amounts of public work to be done and vast amounts of public money to be spent without direct or minute scrutiny by the elected representatives of the people—

The 31 crown corporations report to parliament through 10 different cabinet ministers. These ministers have other time consuming duties, seldom attend board meetings of the various corporations and seldom are acquainted with all the ramifications of their business. The Auditor General, who reports at enormous length and detail on departments coming under the direct control of parliament, devotes only a fraction as much attention to the crown corporations—where his recent report on the departments reaches to 2,000 pages, his report on the corporations reaches only to 156.

To put it baldly, ministers are ignorant of much that goes on in this huge area of public business and spending, and members of parliament are even more ignorant. When directors of the corporations appear before committees of the House of Commons to give an account, the committee members know so little that they are generally incapable of asking intelligent questions.

It goes on to suggest that the solution to this particular problem can be found in a resolution that was on the order paper from the government whip, Mr. James Walker, at the last session, a resolution "which could go a long way toward closing this gap of ignorance." His proposal was:

—that members of parliament be appointed as unpaid directors of the crown corporations and companies.

The editorial gives several reasons for this:

The member-directors could serve as liaison men between the corporations and the minister to whom they report and the committees that inquire into their affairs.

It suggests that it is parliament's responsibility to see that money is properly spent, and so on.

I wonder whether in the years you have been subjected to what the *Globe and Mail* suggests are generally "unintelligent questions" and in the light of the experience you have with your board of directors, you have given any thought to this kind of thing or whether you feel it would be valuable. I do not know what scarring experiences you may have had, if any, in this annual inquiry that goes on, but could you give the committee some suggestions?

Mr. MCGREGOR: I would suggest that I have detected none of the widespread ignorance on the subject to which you refer. I think that committees examining annual reports such as this tend to get into detail of management and elements of the services or products that may be produced by various crown companies to the exclusion, perhaps, of the most important thing that the document represents—\$200 million of gross revenue and about \$199 million of over-all expenditure. Whether it is in cash flow or not does not matter. This is, even by modern standards, pretty important business.

My own comments, given quite frankly as you have asked for them, are that I would prefer to see committees of examination of annual reports, whether they be sessional or whether they be standing as is this one, confine themselves perhaps a little more intimately to the basic financial elements of the report and the fact that they are dealing with big business. I do not think that the *Globe and Mail* article is written from a clear understanding of the relationship between, for example, Air Canada and the government. This seems to imply that the minister is a sort of super general manager of Air Canada, and Mr. Balcer I think would be the first to suggest that this is not the case.

Air Canada's responsibility as a management is to its board of directors, who are appointed partially by order in council and partially by stockholders, and thereafter they must report in this form to the designated minister, which normally has been the Minister of Transport. I do not think that the company should expect to get specialized air line management techniques from a minister or from the government—particularly the Minister of Transport who has a most shocking portfolio in terms of versatility and size, and so on.

I would not go along with the article in the *Globe and Mail*; and certainly this ignorance is for the birds, and certainly the idea of having unpaid directors appointed from the houses of parliament would simply be something that would slow down the normal work of the company's directors.

Mr. FISHER: On a point of order, Mr. Chairman, I am intrigued with the line of questioning and very much interested, as I think every member of parliament is very much interested, in the question that is involved here but I do not think it is fair to quiz Mr. McGregor about this because it seems to me—and I think Mr. Rhéaume will agree—that although our work may be improved, the head of a crown corporation cannot be in any position to advise us or to advise the members of parliament in general or the House of Commons about how it should operate. I think in a sense it is putting an onus on Mr. McGregor that is unfair. For that reason, I do not think we should carry on this line of questioning. I suggest to you that it is outside our terms of reference.

The CHAIRMAN: Mr. Rhéaume, at first when you were speaking about the directors I thought you were really going to speak about the directors of T.C.A.

Mr. RHÉAUME: I am going to do so.

The CHAIRMAN: This is a suggestion about the composition of the board of T.C.A. relating to an article in a newspaper, and Mr. McGregor is being asked to comment about the work of the committee which, as Mr. Fisher has pointed out, is certainly not his function.

Mr. RHÉAUME: On a point of order, Mr. Chairman, it surely is in order for me to ask questions as to the composition of the board of directors and to

discuss the composition and Mr. McGregor's experience over the years with the board of directors—and particularly in 1963—and to ask him if in fact a proposal could make sense on the basis of his working experience with the directors. It is quite in order for people on this committee to ask questions about how many people are of French origin and how many can talk French and how many are German; I want to know how the relationship with the directors works and could it be improved.

The CHAIRMAN: That is quite another point.

Mr. FISHER: I would like to add some further detail on the point of order. Mr. Balcer at least will remember that several years ago we reached this same area as a result of the encouragement of Mr. Rowe who was the sessional chairman of the railways, canals and telegraph lines, or of the railways, air lines and shipping. We asked Mr. Gordon what he felt about the committee and how it should operate. Mr. Gordon did not hesitate to tell us what he thought, and we had a flagellation ceremony in which, in a sense, all our inconsistencies, weaknesses and ignorances were exposed. I did not blame Mr. Gordon for this, but it did not help one damned bit to have this contribution from him. The point remains that it is up to parliamentarians; it is up to this committee to consider this kind of proposal or this kind of recommendation; it is not up to the head of a crown corporation to comment upon them.

I just appeal to Mr. Rhéaume. It is not fair to put this kind of question to Mr. McGregor.

Mr. RHÉAUME: On the point of order, Mr. Chairman, I would comment that there is absolutely no point in this committee coming up with a recommendation that it would be a dandy idea for members of parliament to be on the board of directors if it is going to slow down the work, if it has no merit. This committee has a perfect right to go to Mr. McGregor and ask him, in terms of the board of directors, how he would feel if he were to have a bunch of members of parliament dumped on his board. I have the answer to that now and I will lay off.

The CHAIRMAN: That was one point, but the other point was getting into the area of the efficiency of the members of the committee and their record of questioning. However, I think you have made your point.

Mr. RHÉAUME: I think also it is perfectly fair for me to ask Mr. McGregor if, on the basis of his 1963 experience and the basis of this committee hearing, he has any recommendations. As we opened this committee yesterday we dispensed with something that has been going on forever, which was the system of having the executives of a crown corporation plod through an annual report word by word. That is one change that has been made.

The CHAIRMAN: That was a decision of the committee.

Mr. ROCK: Perhaps Mr. Rhéaume is trying to have the door opened wide so that members of parliament can become directors when they are defeated!

The CHAIRMAN: Mr. Rhéaume has completed his questioning on that point.

Mr. RHÉAUME: If there is any doubt about whether the line of questioning was in order, I think you should say whether it was out of order or will be because I can anticipate questions coming up, as they did last time, in regard to how many of these people are bilingual, how many are this and how many are that.

Mr. FISHER: That is legitimate. I am always in support of giving people scope in their questioning. My point of order is simply that the head of a crown corporation appearing before any committee should not be asked for his opinions about how a committee performs or how it approaches something like this, which is a hypothetical proposal. Mr. Walker had a resolution on the order paper. You can talk about an interim supply; any of us can. In the house

I have made a number of recommendations and many of us have done so over the years with regard to operations of parliamentary committees and have recommended methods for them to become more efficient, but surely this is aside from the consideration of the annual report of T.C.A. I happen, for example, to be very critical of a couple of people on the board of directors from what I know about them, a couple of people who are political appointees. It seems to me that if I wanted to question along this line it would be legitimate but to get off into this hypothetical area is wrong, I feel.

Mr. RHÉAUME: The reason I was directing the question, of course, was to find out from the people who are in the business of running an air line, and surely they are the ones who know what is the best type of set-up for their board of directors. While it may be fascinating to have a bunch of members of parliament talk about how to run an air line, in fact there is not a damned one of us who knows how to run an air line, and that was the point of the question. However, I am through with it.

The CHAIRMAN: Are there any further questions? Is this carried?

Agreed.

Let us proceed to "Outlook."

Mr. PRITTIE: I would like to ask just one question on outlook which deals with finances.

On page 21 under "Capital stock" it is stated that you have authorized 250,000 shares, par value \$100 per share, and that only 50,000 are issued and fully paid. Would this be a means of getting more capital for your operation if more of the authorized shares were issued and paid for?

Mr. MCGREGOR: Mr. Prittie, as I think I said yesterday, happily at the moment we do not have a need as far as we can see through 1965 for additional capital. I would therefore venture the opinion that if the stockholder decided to take up some of that treasury stock, T.C.A.'s action, subject to the approval of its board of directors, would be to retire an equivalent amount of debt capital.

Mr. PRITTIE: Has this proposal ever been advanced by the management to the board of directors?

Mr. MCGREGOR: Not to the board, no.

Mr. PRITTIE: To whom?

Mr. MCGREGOR: To the president of Canadian National Railways.

Mr. PRITTIE: I take it he is not in favour of that idea.

Mr. MCGREGOR: I do not think that would be a fair statement. He has not reacted to the proposal. Knowing him, I feel quite sure that he would have referred it to his financial people and obviously there is no history of T.C.A. paying dividends in recent years on its capital stock, whereas Canadian National Railways gets a present yield of an average of 4.83 per cent on its debt capital. So it is a matter of exchanging a known revenue on the loan money for an unknown revenue in the form of a dividend to be declared. I would hope that if T.C.A. does pay dividends on its capital stock, that it would be something less than the 4.83 per cent average interest on its debt capital.

Mr. PRITTIE: Has this been basically the same since the formation of the company—the 50,000?

Mr. MCGREGOR: No. The whole 250,000 shares were at one time issued. I think if I remember correctly it was I who took exception to that arrangement because we were in fact in some of those years operating at a deficit and we were applying to the government for the deficit with which to pay interest or dividends—whatever you want to call it—on capital stock, and this struck me as a contradiction in terms if not in words.

In 1953 \$20 million of the stock was recalled and a debenture was issued in its stead, so it is not an everlasting arrangement.

The CHAIRMAN: Mr. Rock.

Mr. ROCK: Mr. McGregor, is there any new bilateral agreement in process between Canada and the United States through which new routes for Air Canada or for C.P.A. may be realized in the United States?

Mr. MCGREGOR: I presume you were not here yesterday when we talked about this point. Re-negotiation of the United States-Canada bilateral agreement was originally discussed in April or May—I am not sure which—of this year. The early discussions, which lasted about ten days, were not productive of any progress. They were broken off with the declared intention of resuming in mid July. The basic purpose of those negotiations which have been carried on, I think, primarily at Canada's instigation, is to improve the number of direct transborder routes, hopefully in Canada's favour. But, Canada's history of negotiation of bilateral agreements with the United States has not been very fruitful.

Mr. ROCK: You mentioned yesterday that Air Canada cannot go into the operation of supersonic aircraft because of the noise factor and the regulations in respect of the hours allowed for take off and landings. I would like to know whether you feel if in the future airports should be built in areas where proper area zoning would be enforced in order that industry rather than housing would be within the immediate area.

Mr. MCGREGOR: To clear up that premise, I think I was misunderstood; what I said was that we as a carrier did not know what curfew laws would apply to supersonics at this time and if they were as stringent as those presently applying to subsonics this would prove very detrimental to the supersonic operation. This is the usual compromise you always have in aviation; if the airport is located remote from the city centre and the city does not grow up, then the ground transportation problem is increased intensely. It would have been excellent if at some time in the past when airports like Dorval and Malton were built that they were not surrounded by built up areas and that the areas would have been zoned so that residents would not get to the point where they regard air lines as a nuisance. But, I am afraid we are a little bit late for that now.

Mr. ROCK: My question was directed to the future.

Mr. MCGREGOR: Yes, it would be well to avoid a repetition of this sort of thing.

Mr. ROCK: Do the heads of your departments investigate many of the questions that are put to you and your officials here after this session terminates and is this reported to the board?

Mr. MCGREGOR: Yes.

Mr. ROCK: I am referring to certain complaints and that sort of thing which are brought up.

Mr. MCGREGOR: All the evidence of a parliamentary committee hearing is reviewed and checked against our own records and our own passenger opinion reports, and action is taken depending on what is found.

Mr. ROCK: Thank you.

(Translation)

The CHAIRMAN: Mr. Beaulé.

Mr. BEAULÉ: Mr. MacGregor, I have a short question.

Would you consider it possible to put a *Vanguard* aircraft instead of a *Viscount* into service on flights 445 from Quebec city, and 450 from Ottawa, as we have a big flow of passengers between Quebec and Ottawa and it is rather

difficult to get a seat within 24 hours. One must book five or six days beforehand on that plane. Yesterday I could not fly to Ottawa for lack of seats available on those planes. I had asked for a reservation last Saturday and I could not get one on either of the three flights. Would it be possible to put a *Vanguard* on flights 445 and 450?

(Text)

Mr. MCGREGOR: Offhand, I would say yes, it would be possible. I would not like to see an operation that was not covered by the current timetable, for obvious reasons; if the timetable says one thing and the equipment is something else, and the flying time is different, confusion occurs.

(Translation)

The CHAIRMAN: Mr. Béchard.

Mr. BÉCHARD: Mr. McGregor, did your company ever think of considering service to the Gaspé area which has always been regarded as the end of the world and yet, as such, it would deserve at least some consideration?

(Text)

Mr. MCGREGOR: I do not know that we ever have done a study on the Gaspé region. In fact, I must admit to complete ignorance in respect of the availability of airports that would accept our air equipment. I do not think there are any.

Mr. BÉCHARD: There are a few little airports that could be improved.

Mr. MCGREGOR: I am afraid they would not take even a Viscount at the present time.

Mr. BÉCHARD: Perhaps not but if some improvement could be done there perhaps it would be different.

(Translation)

Have you ever had requests in that respect?

(Text)

Mr. MCGREGOR: No, I never have heard it requested before.

(Translation)

Mr. BÉCHARD: You probably will. Thank you, Mr. McGregor.

(Text)

Mr. BASFORD: In respect of the re-negotiation of the bilateral agreement with the United States has it been possible for you and Mr. McConachie to agree on a common position the Canadian negotiator should take?

Mr. MCGREGOR: No. In fact, I do not think we have discussed it.

The way this thing works is that the chairman of the air transport board, who is basically responsible for the conduct of negotiations, asks the two major carriers at least, and perhaps others, for all I know, what they would like to see obtained as a result of bilateral negotiations, and this is one of the drawbacks, in my opinion, to there being two basic carriers interested because I am quite sure that the requests are in conflict and that the chairman of the transport board is faced with a very difficult problem of going off hoping to come back with a bilateral agreement that will keep both his squalling children happy at home. I do not think this is possible.

Mr. BASFORD: How can the chairman of the air transport board negotiate for routes when he has two different proposals?

Mr. MCGREGOR: This could be the answer to the fact that I, for one, do not think we have ever had a good break in bilateral negotiations.

Mr. BASFORD: Have you ever agreed to reach agreement with Mr. McConachie in respect of the routes which Canada's negotiators should seek.

Mr. MCGREGOR: No, for this reason, that up until now Canadian Pacific Airlines never has been assigned to a trans-border route.

Mr. BASFORD: But, has it not wanted trans-border routes?

Mr. MCGREGOR: I presume so but it never has been regarded as a contender.

Mr. BASFORD: By whom?

Mr. MCGREGOR: Me, for one, or anyone else that I know of.

Bilateral negotiations involving Canadian Pacific Airlines have merely been in respect of trans-oceanic operations with Australia, Japan, Rome, Italy, Amsterdam and so on, and we know all about their desires and requirements there. As a matter of fact, what the minister was referring to yesterday is the type of pre bilateral negotiation communication which I think you are referring to. But, Canadian Pacific Airlines—and I guess this is written into the act somewhere—never has been a trans-border operator between Canada and the United States.

Mr. BASFORD: Their position in respect of their Latin American flights would improve, if they were able to pick up passengers in, say, Los Angeles and San Francisco.

Mr. MCGREGOR: That could be.

Mr. BASFORD: It seems to me that your conclusion that they are not a contender is not quite correct.

Mr. MCGREGOR: I did not conclude they were not a contender; I just said they never had been there.

Mr. BASFORD: Well, in view of your annual report statement, which says:

No major route extensions are at present contemplated, although the company remains constantly alert to interesting possibilities and it is conceivable that this forecast could change, particularly if present hopes for a better bilateral air agreement between Canada and the United States are realized.

It would appear to me that these present hopes which are mentioned in your report are not really very great.

Mr. MCGREGOR: No, they are not. I have no reason to be very hopeful about the current round of bilateral negotiations with the United States, first of all, because the preliminary discussions broke down and, secondly, because there is not a requirement on behalf of United States carriers for routes into Canada to offset privileges that Canadian carriers might be given in the United States.

Mr. BASFORD: Would not these hopes be increased slightly if the Canadian negotiator could come common instructions from both Canadian carriers?

Mr. MCGREGOR: I think that might be right.

Mr. BASFORD: Will you endeavour to see that the Canadian negotiator is aware of your common grounds?

Mr. MCGREGOR: We have had quite a lot of talks with the Canadian negotiator. To the best of my knowledge, he never has called upon us to tell us what Canadian Pacific Airlines were asking him to seek and, I would hope, that the reverse was true. Now, whether it would improve his position or not to bring us together, I do not know; it might.

Mr. BASFORD: But, you conjectured a few moments ago that it would.

Mr. MCGREGOR: I said it might help.

Mr. BASFORD: I can appreciate that.

Mr. MCGREGOR: I would much prefer to see Canadian Pacific Airlines not get into the United States, quite frankly.

Mr. BASFORD: This I can appreciate, but I would much prefer to see Canada through its air lines getting into the United States.

Mr. MCGREGOR: Yes. But, you see, we are talking a bit at cross purposes at the present time. If the chairman of the air transport board is prepared to accept the status quo as being all right all he has to do is satisfy T.C.A. requirements, as stated, for new trans-border routes, so he is not confronted with a conflict unless he is prepared to produce it in his own mind.

Mr. BASFORD: No, but if he has alternative routes which he wants to ask the Americans for, some for you and some for Canadian Pacific Airlines, surely his position will be made stronger if you both could agree on what he should be requesting.

Mr. MCGREGOR: Yes but, alternatively, he could say, basically; "we do not regard C.P.A. as a trans-border operator so all I am going to seek is T.C.A.'s request."

Mr. BASFORD: Does he take that position?

Mr. MCGREGOR: I am afraid not, but I do not know.

Mr. BASFORD: Do the meetings in Vancouver starting today involve discussions on this?

Mr. MCGREGOR: I think they probably will get to this area because they cover the waterfront as a rule. This is not the first of these meetings by a long shot.

Mr. BASFORD: I appreciate that.

The CHAIRMAN: Will you proceed now, Mr. Balcer?

Mr. BALCER: Have you noticed a different attitude on the part of the Americans during these discussions from what their attitude was before?

Mr. MCGREGOR: Well, Mr. Balcer, I was not present at the discussions. However, I think there was evidence of a greater desire to meet Canada's wishes arising out of the Galbraith report which, I understand, as it was reported to me, favoured a more liberal attitude on the part of the United States air authorities toward Canada's desires.

Mr. BALCER: In respect of the attitude of the United States government can we conclude that there might be a softening up but so far as the American air lines themselves are concerned they are just as bad, if not worse, than before.

Mr. MCGREGOR: Yes, I think that is a fair conclusion. But, I must say that I was disappointed that the first go around did not produce some form of agreement, if even tentative.

Mr. BALCER: With regard to the conflict of interest with C.P.A. on the trans-border routes has T.C.A. ever expressed a desire of establishing a service between Canada and, say, California or Los Angeles?

Mr. MCGREGOR: I think every list we have prepared has expressed a desire for some such route as Toronto to Los Angeles.

Mr. BALCER: Have you a representative of your corporation in attendance at all the bilateral discussions proceeding with the United States; in other words, is a representative of yours sitting at the table with the air transport people?

Mr. MCGREGOR: No. We are allowed to provide an observer but he must not take part in the discussions.

Mr. BALCER: What is the situation in respect of the American side of it?

Mr. MCGREGOR: They have one appointee from the American Transport Association who maintains a watching brief for all the carriers that might be interested.

Mr. BALCER: I have one more question. Where does T.C.A. rank among the air lines in the world at the present time?

Mr. MCGREGOR: Almost any number you would like to say, between seventh and tenth.

Mr. BALCER: Say, in reference to passengers?

Mr. MCGREGOR: In respect of revenue passenger kilometers, ninth.

Mr. BALCER: And, in respect of equipment; say D.C.8's.

Mr. MCGREGOR: Do you mean in numbers?

Mr. BALCER: The number of D.C.8's.

Mr. MCGREGOR: I would think it would be very close to the same.

Mr. BALCER: About the same?

Mr. MCGREGOR: Yes.

Mr. RHÉAUME: I have a couple of questions to ask on "Outlook".

I am looking at this summary of the aviation business in the world and according to the information taken from your report and the other annual reports Trans-Canada Air Lines is eighth in air lines and ninth in total rating.

Mr. MCGREGOR: There are a number of ways you can count it. There are passenger miles, ton miles and so on, and that is why I said to Mr. Balcer to take any number between seven and ten.

Mr. RHÉAUME: I am interested in the sort of pseudo policy that the minister gave to the Canadian people over television one night in respect of how this is going to affect the company's operations, and I want to put to you, as one who attended the big four meeting with Mr. Crump, Mr. Gordon and Mr. McConachie, that in the international field the suggestion was that the two major carriers must come up with a single integrated plan either through amalgamation, partnership or a clear division of responsibility. Is that accurate? Are those not the terms of reference in respect of which you are preparing for this September report?

Mr. MCGREGOR: In the first place, I would prefer not to comment on what went on at the four presidents' meeting because the last word in there was that this was not a matter on which public statements should be made until some solutions had been arrived at. So, I regard that as a closed meeting and I think it should remain so. On the other hand, rather than have a misunderstanding arise I do not think that amalgamation was one of the three possible solutions mentioned by the minister at that meeting.

I did not see the television show you referred to but, if it was mentioned there, well and good.

Mr. RHÉAUME: I am suggesting to you that this show did include that particular possibility. Then is it my understanding that you are absolutely clear in terms of either partnership or a clear division of responsibility between the two major carriers, and that that was part of the terms of reference under which the meetings have been held which you have been attending but, as you said, not so far as any possibility of amalgamation is concerned.

Mr. MCGREGOR: I said I did not think the minister included it at the four presidents' meeting as one of the avenues to be explored.

Mr. PRITTE: The statement of the house did; I have it here and it says by amalgamation or partnership or clear division of fields of operation.

Mr. MCGREGOR: I think everyone knows my views, that the putting together by one means or another would be a great step forward in efficiency. There would be many duplicated costs ended and I think both the quality of service and the cost of it to the user would be improved.

Mr. RHÉAUME: Then you are not choked up about this suggestion the minister made?

Mr. MCGREGOR: No. On the contrary, I am delighted to have it included.

Mr. RHÉAUME: As I understood the minister's statement the policy guide lines you should follow in respect of domestic operations were that as long as there would be no injury to Trans-Canada Air Lines whenever new routes were awarded the other major carrier, Canadian Pacific Airlines, should be allowed to share in the growth. I should like to ask you, as president of Air Canada, whether you can estimate what the growth will be in coming years.

Mr. MCGREGOR: Yes.

Mr. RHÉAUME: Could you indicate that estimate to us?

Mr. MCGREGOR: That depends on how far ahead you wish to go. I think the 1964 estimated growth is in the order of six per cent and the 1965 estimate of growth in the order of five per cent. Incidentally, I regard the two objectives as being contradictory.

Mr. RHÉAUME: This is a paradox in your books? You do not think there can be such a thing as allowing C.P.A. in at the table and still not injure yourself.

Mr. MCGREGOR: That is it in a nutshell, because expense, particularly labour, grows every year by approximately five per cent and the only possible way of meeting that increased expense, if you have the size of the organization cut down to the bare minimum, as we believe we have, is by creating a growth in revenue.

Mr. RHÉAUME: How big would the bundle have to be before C.P.A. would be allowed to share in this new growth?

Mr. MCGREGOR: I do not follow your question in view of what I have just said.

Mr. RHÉAUME: You mean that no matter how big the pie is there is no room for sharing by C.P.A.?

Mr. MCGREGOR: Unless growth jumped by ten or 15 per cent some year we could not share this growth.

Mr. RHÉAUME: You do not anticipate such an increase, and your best estimate of the growth is six per cent?

Mr. MCGREGOR: Our best estimate is six per cent.

Mr. RHÉAUME: I am going to have to make a short statement before asking my next question.

The minister said that before Air Canada could even consider anything in respect of regional carriers you and C.P.A. would have to clear up these other things which are in the way. Are you now telling the committee that you are in fact being instructed to sit down at the negotiating table with a paradox and that you cannot clear these other things out of the way because there is no room for C.P.A.?

Mr. MCGREGOR: Did the minister not say that he was referring to an ultimate sharing of the growth?

Mr. RHÉAUME: Ultimate is coming to look pretty far distant.

Mr. MCGREGOR: That is my opinion, yes.

Mr. RHÉAUME: I am also concerned about whether we can hope for any kind of regional decisions on the part of Air Canada, which is part and parcel of the minister's suggestion, although you cannot call it policy because he said it was not policy. Is it the non-policy, then, that in respect of regional carriers these things have to be settled first? I am wondering how in the world you can bring in a report in September if in fact from the company's point of view you cannot fulfil one of the basic terms of the negotiation with C.P.A.

Mr. MCGREGOR: I understood the minister yesterday to be confining his remarks in his forecast of his expectation to receive a report from Mr. McConachie and myself by September to the international problem.

Mr. RHÉAUME: That did not refer to the domestic situation?

Mr. MCGREGOR: My understanding is that he did not refer to the domestic situation.

Mr. RHÉAUME: I also understood the minister to indicate that he took the general outlook that until such time as we can get you two fellows in the same bed on international operations and domestic operations in this way, steps had to be taken, particularly before any discussions took place in respect of Air Canada's regional responsibilities. Was that what he said yesterday?

Mr. MCGREGOR: I think that is a fair assumption, yes.

Mr. RHÉAUME: So from your point of view, in respect of your negotiations with Mr. McConachie, since you are only going to negotiate on an international basis, any decision in respect of Air Canada abandoning regional routes will be put off for some two years at least?

Mr. MCGREGOR: I think that is a fair assumption. Furthermore, I think it would be very disturbing to Air Canada if such a decision was made any sooner because, as I indicated yesterday, there is some 40 per cent of the company's total effort in regional type operation at the present time.

Mr. RHÉAUME: This is difficult for me as a committee member to understand because a lot of regional routes seem to represent a fairly expensive part of T.C.A.'s operations. It seems to me you are losing quite a few million dollars in this regard.

Mr. MCGREGOR: Yes.

Mr. RHÉAUME: You still wish to continue these operations for at least one or two more years?

Mr. MCGREGOR: I am saying that if a major amputation is carried out suddenly it will be very disruptive and very disturbing to company personnel. It will also have other repercussions—such as a quick reduction in the number of Viscounts in service, which is of interest in the matter of the Winnipeg base—because basically all of the regional operations are carried on by Viscounts.

Mr. RHÉAUME: I should like to ask one further question to clear up something I am not sure I heard correctly. Yesterday when we were referring to the supersonic aircraft, to which further reference was made today, I thought I understood you to say that no air lines in the world had placed orders; is that right?

Mr. MCGREGOR: No air line in the world has placed an order for the American version.

Mr. RHÉAUME: I was just trying to clear this up, because the May 1964 edition of *American Aviation* contains the detail of your annual report as well as the annual reports of other air line companies and it indicates that the United States scheduled air lines have placed 19 orders for the British-French Concorde, and hold 37 tentative delivery positions for the United States supersonic transport. That does not agree with your statement.

Mr. MCGREGOR: If you had listened to my qualifications you would have noted I said there were no orders placed for the United States version of the SST.

Mr. RHÉAUME: That is the situation although these companies have paid \$100,000 to get in the lineup for the United States SST?

Mr. MCGREGOR: Yes, that is right.

Mr. RHÉAUME: Thank you. I have no further questions.

The CHAIRMAN: Mr. Fisher?

Mr. FISHER: Do T.C.A. and C.P.A. use the same system of accounting and costing?

Mr. MCGREGOR: In so far as our reporting to government is concerned, we do. In respect of internal accounting and costing, I do not know.

Mr. FISHER: In terms of the aircraft you have on routes and their profitability, in respect of which overhead costs are included, does C.P.A. have the same set-up, covering the same information?

Mr. MCGREGOR: Yes. C.P.A. abides by the same regulations established by the air transport board.

Mr. FISHER: The term "social routes" has been introduced over the last few years. Have you any indication that C.P.A. has social routes?

Mr. MCGREGOR: First of all, I think I share your dislike for the term because it is nonsense. It was given birth to by the expert, Mr. Wheatcroft, when he was called in by the Government for the T.C.A. and C.P.A. hearings. No one had ever heard that phrase before but it came into use then, although I do not know why. I do not understand the connotation at all.

To answer your question, C.P.A. operates some services north from Edmonton into the Yellowknife area which I think they would be inclined to designate as social in character, although I do not think they are money losers.

Mr. FISHER: In respect of any adjustments in any of the domestic patterns or in any preliminaries to them, have you worked out any kind of policy or attitude regarding where your responsibilities might be in terms of these routes? Let us say it is socially important that the government makes sure these communities are served, yet there is not any money in terms of revenue involved or possible.

Mr. MCGREGOR: This is going to sound like a sort of juvenile answer to your question, Mr. Fisher, but we have assumed that by the nature of things we should, probably regardless, or almost regardless of the economic situation, serve provincial capitals. We do serve all of them with the exception of one at the present time. Otherwise I do not think I can generalize in an answer to your question.

Mr. FISHER: I should like to ask you some questions about two regions. I understand that in the north at least one air line company has been able to carry on a remunerative business. I also understand there have been some recent developments in the maritime provinces with the co-operation and integration of two of the carriers. I have seen statements by the provincial premiers, particularly the premier of Newfoundland, which indicate that politically at least in the maritime provinces there is an interest in respect of giving that particular regional carrier a larger role in the maritimes. If this is acceptable as government policy, have you given any consideration to the withdrawal of T.C.A., allowing that particular regional carrier in the maritimes a better opportunity?

Mr. MCGREGOR: No. We are strongly opposed to what is generally called a "move over" philosophy.

Mr. FISHER: Since it is possible that we may have a confrontation, in a sense in a political connection, and in light of that development of the regional carrier, can you indicate your reason for giving a negative answer to my other question.

Mr. MCGREGOR: You are referring to my answer that we do not agree to the "move over" policy? It would seem to me to be contrary to the general idea of a service organization. If another carrier comes in, and I do not think the one we are talking about is received with glad welcome to the mainland, I think it is our duty to continue to serve as long as the traffic will support the operation we are offering.

Mr. FISHER: Referring to the Sydney to Halifax part of your route, for example, I am sure that is not remunerative to you. I imagine it is a regular

loser. Using that as an example, what would be the disadvantage to you of disposing of that route?

Mr. MCGREGOR: I think we would be cursed quite heartily in at least the two communities you have mentioned, and probably in other areas, as having failed to live up to our responsibilities if we had a service and as soon as somebody came along promptly folded up and crept into a corner. I think such action would injure the reputation of the company. I think it would be contrary to the wishes of the director from that area.

Perhaps, if you will allow me to digress for a moment, I should warn you not to refer to Newfoundland as a maritime province. I was lectured by Mr. Pickersgill about doing this myself.

Mr. FISHER: It is exactly because Mr. Pickersgill is the Minister of Transport that I am concerned about this, and not going out of my way to be nasty because he is not here, I have often seen a regional minister tend to play to the regional interests, and since T.C.A. is not a regional interest and the Maritime Airways happens to be, I wanted to get your views in this regard on the record as completely and strongly as possible. I am expressing personal opinions in this regard, Mr. Chairman, but it is all too fashionable and sort of, in name, a regional virtue to make this kind of move.

Mr. MCGREGOR: Mr. Fisher, I feel I should say in fairness to the minister that we have never discussed this point. He has never asked what T.C.A.'s attitude was going to be to the introduction of E.P.A. to the mainland; whether we were going to reduce our frequency or capacity, or take any other action that would make life easy for them. This has never been done by Mr. Pickersgill, and my answer to him, if he had asked this question, would have been the same as it was to you.

Mr. FISHER: The reason I have asked these questions is that it seems to me there has been a hint, in outlining what Mr. Rhéaume called a pseudo-policy, that this kind of thing might develop. The maritimes was the first area about which I was worried. Let us look at the situation in the northern part. You are not operating into the north?

Mr. MCGREGOR: We are not operating beyond Val d'Or, no.

Mr. FISHER: There seems to be a going commercial possibility there. I would assume that if your writ runs to the extent that it does, and you have a sense of responsibility as a government supported carrier, you should have a look at the north as a possibility. I think anyone who wants to, as I assume Mr. Rhéaume does, see the extension of competition or the opportunity offered to private carriers, also must look at the possibility that T.C.A. should be given the opportunity of extending its service, going into another area. I am just wondering whether you have looked at the north in these terms.

Mr. MCGREGOR: We have looked at the north situation and have never felt we were under any restrictions about applying for a route. By the same token we have never felt that the extension of our route into the north, or at least in respect of the ones we studied, would initially contribute to overhead. Therefore we thought it better to leave them alone.

Mr. FISHER: Let us look at the situation in this way. The major northern air lines are becoming competitors of yours particularly in the charter field.

Mr. MCGREGOR: That is true.

Mr. FISHER: If we are going to live in a philosophy of competition I should like to know your answers in respect of that kind of intrusion. We assume you do not want an answer in terms of government regulations restricting the development of those air lines. How do you respond to that kind of challenge?

Mr. MCGREGOR: As you suggest, the only effect we have felt up to the present time is largely in the charter field to the Caribbean area.

Mr. FISHER: If these companies acquire a CL-44 and commence Atlantic hauls, this will have an effect on both T.C.A. and C.P.A., is that right?

Mr. MCGREGOR: That might well be the situation. You know for years it was a regulation and government practice that a charter request was invariably referred for first refusal to the scheduled carrier operating on the route involved. This practice went out of fashion or was dropped without any fanfare and, I am ashamed to say, without my knowledge for some months. I think that was quite wrong. I think the carrier operating a scheduled service on the route, whatever its nationality or identity, should have first refusal, there being a filed chartered tariff so that price does not come into the question. The abandonment of this policy has resulted in a great deal of semipiracy in the charter field, particularly by foreign carriers.

Mr. FISHER: Is there no way in which you can respond except through a return to the previous policy, which would give an advantage to the scheduled air lines?

Mr. MCGREGOR: I think that is the best answer to the situation.

Mr. FISHER: Do you know what the view of C.P.A. officials is in this regard?

Mr. MCGREGOR: I think they are the same views that we take.

Mr. BASFORD: I should like to ask one or two questions in respect of air cargo. You mentioned yesterday that you had abandoned all-freight craft.

Mr. MCGREGOR: We no longer use all-freight aircraft, that is right.

Mr. BASFORD: What is your reason in this regard?

Mr. MCGREGOR: The cheapest way of moving air cargo is as a byproduct to a passenger operation, and two of our aircraft types are specifically designed for this purpose, and were selected for that reason.

Mr. BASFORD: That situation means that a shipper must meet a passenger timetable, is that right? Could you not offer a better service to shippers by operating a straight air commerce service?

Mr. MCGREGOR: No. One of the facts in this regard to which I referred yesterday is that virtually all of our routes have a strong directional imbalance in the matter of cargo traffic. This fact very nearly precludes the possibility of all-cargo aircraft because it would require flying each craft virtually empty in one of the two directions of the route.

Mr. BASFORD: How large is your air cargo sales staff in western Canada directed toward correcting this imbalance?

Mr. MCGREGOR: I do not know; it is probably in the order of 30 or 40.

Mr. BASFORD: Can you correct the invalidity?

Mr. MCGREGOR: No; it is inherent; it is there. If we had a light manufacturing industry on the west coast as has the United States, it would not be there.

(Translation)

The CHAIRMAN: Mr. Beaulé.

Mr. BEAULÉ: I have a very short question. Mr. McGregor, when do you expect that the new name Air Canada is going to be used on the whole system?

(Text)

Mr. MCGREGOR: It is applied throughout the system now so far as telephone answering is concerned and flight announcements on P.A. systems; this all took place as of June 1. I have asked the minister to proclaim bill No. C-2 as of January 1, 1965, and that would complete all the legal documentation and so on.

(Translation)

Mr. BEAULÉ: Will the new DC-9 be lettered: Air Canada?

(Text)

Mr. MCGREGOR: Yes, and all the other aircraft too.

The CHAIRMAN: Is the report carried?

Agreed.

Mr. COWAN: Mr. Chairman, I have not asked any questions and I was not here yesterday but I presume "Outlook" is a catch-all title and I would now like to refer to page 11. On page 11 of the report you refer to air mail, Mr. McGregor:

Record volumes of air mail were also transported on international routes. Agreements were completed with three foreign air lines for reciprocal transportation of national mail on bilateral routes. These foreign air lines have undertaken to carry air mail of Canadian origin to their countries on T.C.A.'s behalf while T.C.A. in return carries their national air mail to Canada under the same terms and conditions.

I want to ask this question. Are you keeping any record of the poundage moving in each direction? At the present time this country is labouring under a serious drawback in that we carry millions of pounds of United States second class mail coming into this country, to all corners of the country, and they carry a couple of thousand pounds of Canadian mail going their way. It is second class mail of which I am speaking. Yet, on parcel post we have a cash settlement every six months related to the tonnage carried and the mileage. What is the arrangement here? Are we to be caught carrying Austrian mail from Vancouver to Halifax because the Austrian mail carries ours from Linz to Vienna?

Mr. MCGREGOR: No. T.C.A.'s flights in Germany will be given a certain amount of German mail in exchange for Lufthansa flights in Canada being given a certain amount of Canadian mail.

Mr. COWAN: That certain amount being—

Mr. MCGREGOR: —equated.

Mr. COWAN: And we are being paid for any difference in weight that we might carry?

Mr. MCGREGOR: T.C.A. is being paid for the Canadian mail that both airlines carry, and Lufthansa is being paid for the German mail carried by both airlines.

Mr. COWAN: You refer to a reciprocal arrangement. I wonder if there is any payment being made?

Mr. MCGREGOR: This does refer to the financial arrangements and to traffic arrangements.

Mr. COWAN: I am asking with regard to the financial end. The fact is that the German government gets paid for mail mailed in Germany destined for Edmonton. Does the Canadian government get any of that postage money?

Mr. MCGREGOR: Would you repeat that?

Mr. COWAN: If a lot of mail is destined from Germany for Edmonton, Alberta; the German government collects the postage and it is flown across Canada by T.C.A. Does T.C.A. get anything from that?

Mr. MCGREGOR: Yes.

Mr. COWAN: I ask that because of my knowledge of the system of the land mail from which we do not get a cent.

Mr. MCGREGOR: I do not know much about inter postal authority arrangements, but I do know there is a special arrangement with the United States

by which either country's mail is carried by the other one, and I presume they work out an equitable arrangement on the charges.

Mr. COWAN: You are not giving a definite answer; you are just saying you would presume?

Mr. MCGREGOR: Yes.

Mr. COWAN: Well, we can look into it through the post office.

Mr. MCGREGOR: Yes.

Mr. COWAN: I did not know about this reciprocal arrangement but I am so provoked about the way in which we carry the United States mail by the million pounds and the fact that they carry only a couple of thousands for us that I do not want to see this situation grow.

Another matter concerns the terminal facilities for ground transportation. Is that a matter to take up with the operators? Yesterday one of the operators was laying great stress upon the fact that he had a contract with the air lines, but I said I was not interested in that, I was interested in the Department of Transport contracts. These contracts come more under Department of Transport than the air lines?

Mr. MCGREGOR: Yes. We have nothing whatever to do with these ground transportation carriers other than to say to D.O.T. that our experience is such and such, that it is satisfactory and we would like to see the contract renewed, or vice versa.

The CHAIRMAN: Is the report carried?

Agreed.

We now come to the capital budget. Is the budget carried?

Agreed.

Is the auditor's report carried?

Agreed.

Gentlemen, that concludes our sittings on the two matters which were referred to us and we have no other matter before us at the present time.

Before preparing a report for the House of Commons, this committee or at least a steering committee should meet to see if there are any other matters which arose during this committee which should be discussed.

Mr. FISHER: There is one matter I should like to raise while the full committee is here. I would like to know whether the steering committee should take this up.

During the Canadian National Railways report you may remember that Mr. Pickersgill made some comments regarding the responsibility of the Department of Labour with regard to this whole question of innovation and technical change in the railways and the consequences upon the working force, and the strains and difficulties thereby caused. You may remember, Mr. Chairman, that this came up when we were having a discussion on my bill that was brought before this committee last session. The subject matter was approved and the report was tabled in the House of Commons. It was not concurred in because there was insufficient time. Mr. Pickersgill, if you remember—and I think I am paraphrasing him correctly and exactly—suggested this was more a responsibility for the Department of Labour to examine and to work upon. I would like to suggest, since Mr. Pickersgill raised this, that the steering committee be given permission to examine the record of what Mr. Pickersgill said and consider including in our report a comment upon his particular suggestion and a possible recommendation to go along with this report to the house. I do not think it would be straining the terms of reference, and I am just suggesting that it would be good if the committee as a whole knows

that the steering committee would be considering this. I am not going to make a motion but I would just like to know whether the committee would consider this.

Mr. ROCK: Mr. Chairman, I would like to see that in the minutes first. I would like to see it.

The CHAIRMAN: Will you authorize your steering committee, gentlemen, to consider this question when we have seen the minutes?

Mr. RHÉAUME: That is a good idea.

Agreed.

Mr. BERGER: I do not know whether it is customary, but I would like to move a motion of appreciation and thanks to Mr. McGregor and his assistants for the way in which they have so amicably and satisfactorily answered all our questions, and to wish them the best of luck for this coming year.

The CHAIRMAN: I thank you, and I personally want to thank Mr. McGregor and the members of his staff who came here.

I will call the steering committee as soon as we have the minutes of evidence.

This concludes our sittings at the present time—I hope until next fall.

Thank you.

Mr. MCGREGOR: Thank you very much.

HOUSE OF COMMONS  
Second Session—Twenty-sixth Parliament  
1964

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STANDING COMMITTEE  
ON  
**RAILWAYS, CANALS AND  
TELEGRAPH LINES**

*Chairman:* JEAN T. RICHARD, Esq.

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

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TUESDAY, JULY 7, 1964

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Respecting

Bill S-27—An Act respecting The Bell Telephone Company of Canada.

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WITNESSES:

*From the Bell Telephone Company of Canada:* Messrs. Marcel Vincent,  
President, P. C. Venne, Q.C., Vice-President and General Counsel,  
R. C. Scrivener, Vice-President.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1964

STANDING COMMITTEE  
ON  
RAILWAYS, CANALS and TELEGRAPH LINES

*Chairman:* Jean T. Richard, Esq.

*Vice-Chairman:* James Brown, Esq.

and Messrs.

Addison	Granger	McBain
Armstrong	Grégoire	McNulty
Balcer	Guay	Mitchell
Basford	Hahn	Millar
Beaulé	Howe ( <i>Wellington-</i>	Muir ( <i>Lisgar</i> )
Béchar	<i>Huron</i> )	Olson
Berger	Irvine	Nugent
Boulangier	Kennedy	Orlikow
Cadiu	Kindt	Pascoe
Cameron ( <i>Nanaimo-</i>	Korchinski	Prittie
<i>Cowichan-The Islands</i> )	Lachance	Pugh
Cantelon	Lamb	Rapp
Cantin	Laniel	Regan
Cooper	Latulippe	Rhéaume
Cowan	Lloyd	Rock
Crossman	Lessard ( <i>Saint-Henri</i> )	Ryan
Crouse	Macdonald	Southam
Émard	MacEwan	Stenson
Fisher	Mackasey	Tucker—(60)
Foy	Marcoux	
Godin	Matte	

(Quorum 12)

Maxime Guitard,  
*Clerk of the Committee.*

*Note:* Mr. Mitchell replaced Mr. Brown, on July 2, 1964.

ORDER OF REFERENCE

THURSDAY, June 25, 1964.

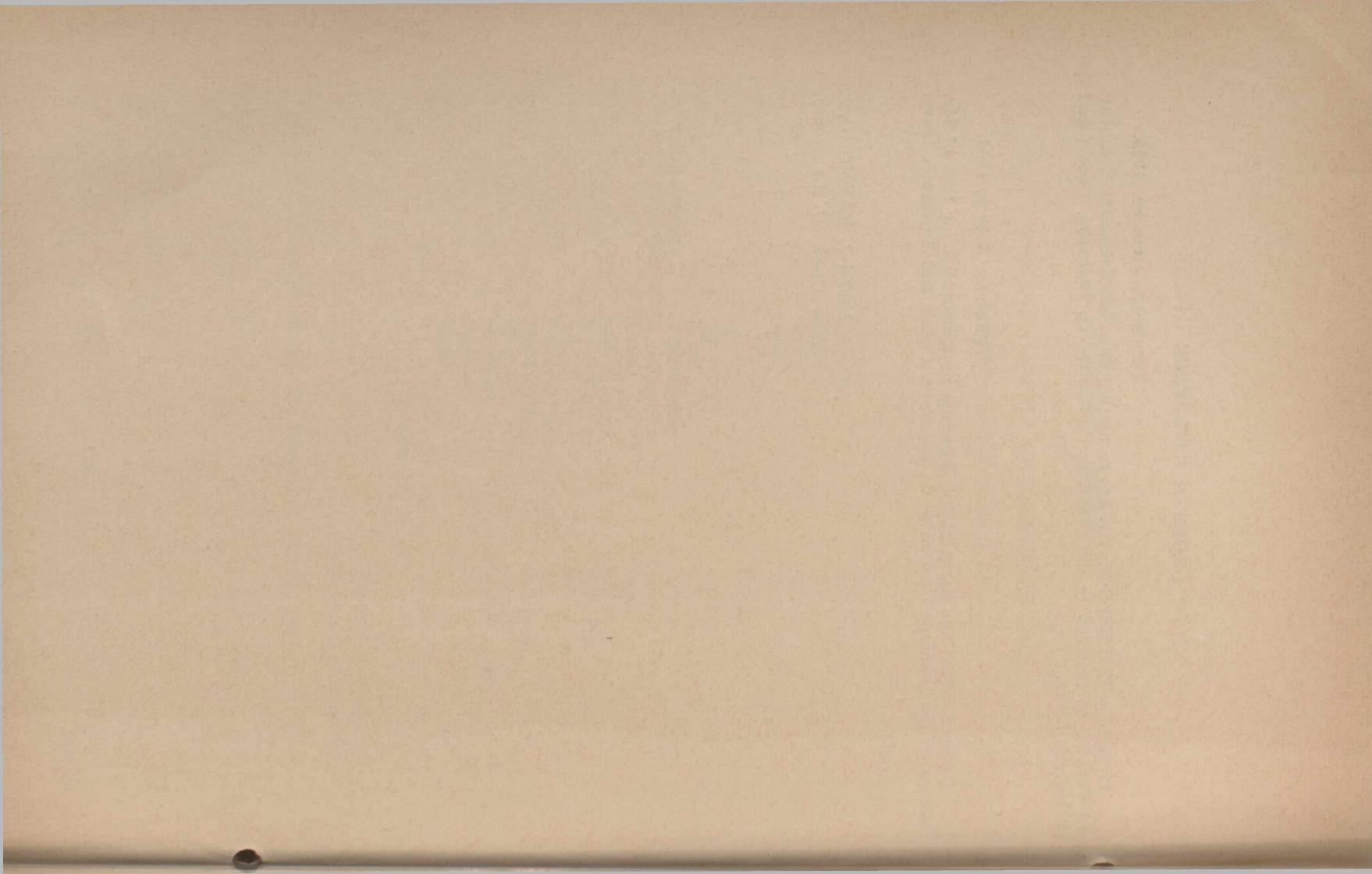
*Ordered*,—That Bill S-27, An Act respecting The Bell Telephone Company of Canada, be referred to the Standing Committee on Railways, Canals and Telegraph Lines.

THURSDAY, July 2, 1964.

*Ordered*,—That the name of Mr. Mitchell be substituted for that of Mr. Brown on the Standing Committee on Railways, Canals and Telegraph Lines.

*Attest.*

LEON-J. RAYMOND,  
*The Clerk of the House.*



## MINUTES OF PROCEEDINGS

TUESDAY, July 7, 1964

(13)

The Standing Committee on Railways, Canals and Telegraph Lines met at 10:09 o'clock a.m. this day. The Chairman, Mr. Richard, presided.

*Members present:* Messrs. Addison, Balcer, Beaulé, Cantelon, Cowan, Crossman, Foy, Howe (*Wellington-Huron*), Lachance, Lamb, Lloyd, Macdonald, MacEwan, Millar, Pascoe, Regan, Richard, Rock, Ryan, Stenson (20).

*In attendance:* Mr. Gregory J. Gorman, Parliamentary Agent, and from the Bell Telephone Company of Canada: Messrs. Marcel Vincent, President, P. C. Venne, Q.C., Vice-President and General Counsel and R. C. Scrivener, Vice-President.

The Committee considered Bill S-27, an Act respecting the Bell Telephone Company of Canada.

The Chairman instructed the Clerk of the Committee to read the Order of Reference.

### *On the Preamble:*

The Chairman invited the sponsor, Mr. James Brown, M.P. to introduce the Parliamentary Agent, Mr. G. J. Gorman, and the officials of the Bell Telephone Company of Canada, namely: Messrs. Marcel Vincent, President, P. C. Venne, Q.C., Vice-President and General Counsel and R. C. Scrivener, Vice-President.

Mr. P. C. Venne, Q.C., explained the purpose of the bill.

The Preamble was carried.

### *On Clause 1,*

Mr. Beaulé moved, seconded by Mr. Balcer,

That subsection 8 of clause 1 be amended as follows:

On line 2, after the word "*than*", delete number "20" and insert number "21".

After further explanations from the officials of the Bell Telephone Company of Canada, both the mover and the seconder of that said motion sought and were granted leave to withdraw their motion.

Clause 1 and the Title were carried.

The Bill was carried without amendment.

*Ordered,*—That Bill S-27 be reported without amendment.

At 11:52 o'clock a.m. the Committee adjourned to the call of the Chair.

Maxime Guitard,  
*Clerk of the Committee.*



## EVIDENCE

TUESDAY, July 7, 1964.

(Text)

The CHAIRMAN: Gentlemen, this morning we are considering an act respecting the Bell Telephone Company of Canada. I would ask the clerk to read the order of reference.

### THE CLERK OF THE COMMITTEE

Thursday, June 25, 1964.

Ordered that Bill No. S-27, an act respecting the Bell Telephone Company of Canada be referred to the standing committee on rails, canals and telegraph lines.

The CHAIRMAN: Now, gentlemen, I hope everyone has a copy of the bill. If you wish to have one, it will be distributed.

This bill is sponsored by Mr. Brown, who I believe will introduce the parliamentary agent and other members of the company who are appearing here this morning.

Mr. BROWN: Gentlemen, I have with me Mr. Gregory J. Gorman. I also have with me Mr. Marcel Vincent, the president of the company, Mr. P. C. Venne, Q.C., vice president and general counsel, and Mr. R. C. Scrivener, vice president.

The CHAIRMAN: Gentlemen, I will call the preamble. I would ask Mr. P. C. Venne, Q.C., vice president and general counsel of the company to introduce this matter.

Mr. P. C. VENNE, Q.C. (*Vice President and General Counsel, Bell Telephone Company of Canada*): Gentlemen, as you are aware, the bill really provides for a change in the maximum number of directors of the company from 15 to 20. The maximum of 15 started with our act of incorporation in 1880. In the years since 1880, the shareholders have elected a varied number of directors until 1927 when they elected the maximum of 15. The number of directors has remained at 15 since then. However, since 1927 the operations of the company have increased greatly. In 1927, we had about 668,000 telephones in service; today we have well over four million. We had about 15,000 employees, and today have more than 36,000. In that period our shareholders were a little more than 14,000; today we have more than 200,000. In 1927 the equity capital investment in the business was about \$59 million; today it is more than \$1 billion.

Such a growth has an important role in the economy of Canada. The complexity of the problems has increased every year, and in our opinion has established the necessity to call up more leading Canadians to our board of directors.

If I may be permitted, gentlemen, I also would like to mention other facts which do not appear to be well known; these are very important, not only for the company, but for all Canadians. It will be noted that 97 per cent of the

shareholders of the company are residents of Canada, holding between them 93 per cent of the stock of the company. The American Telephone and Telegraph Company, as of December 31, 1963, owned 2.8 per cent of the capital stock of the company. This has been reduced again at this time by the issuance in March of two million shares.

Only one out of the 15 directors is not a Canadian citizen.

Gentlemen, Mr. Marcel Vincent and Mr. Scrivener are at your disposal for questioning.

The CHAIRMAN: Gentlemen, we are on the preamble and, without limiting the questioning, I would like to think we can proceed in an orderly fashion in respect of this bill which is rather simple, and I hope that it will not be necessary to cover areas which are not within the amending bill.

In any event, I think we should proceed immediately. I will allow Mr. Regan to begin.

Mr. REGAN: Mr. Vincent, at the present time you have 15 directors?

Mr. VINCENT (*President, Bell Telephone Company of Canada*): Yes.

Mr. REGAN: Your intention and desire in this bill is to increase this immediately to 20?

Mr. VINCENT: No. We would like to have some leeway. I am not saying that we intend to go up to 20 in the very near future. However, we would like to be able to go up to 17 or 18, or something of that nature. We feel right now that we have no elbow room.

Mr. REGAN: How many of the 15 directors which you presently have also are directors of Northern Electric Company Limited?

Mr. VINCENT: Four. There is Mr. Eadie, Mr. Keefer, Mr. Lank and Mr. Johnson. Mr. Keefer is president of Northern Electric Company Limited and Mr. Eadie is the chairman of their board.

Mr. REGAN: What is the corporate relationship between your company and Northern Electric Company Limited?

Mr. VINCENT: We own 100 per cent of Northern Electric Company Limited.

Mr. REGAN: One hundred per cent?

Mr. VINCENT: We own it all.

Mr. REGAN: That was not always the case?

Mr. VINCENT: No. Recently we repatriated, if you like, some 10 per cent which was still with the Western Electric Company.

Mr. REGAN: You purchased it from Western Electric?

Mr. VINCENT: Not directly from Western. In effect it was from Western, but not directly.

Mr. REGAN: Your company is a special act company, I believe. By what authority do you hold shares in other companies, such as Northern Electric?

Mr. VINCENT: According to the charter we have permission to own shares.

Mr. ROCK: On a point of order; is this questioning in order?

The CHAIRMAN: I think so. This is the business of the company. We are on the preamble just now; we are not yet on the clauses.

Mr. ROCK: This is not a company which has come here to be incorporated as a new company, and questions are being asked in that direction. This company is only bringing in an amendment to its charter.

Mr. VINCENT: It is an amendment with regard to the maximum number of directors.

Mr. ROCK: I think this is the only thing we should discuss.

The CHAIRMAN: I cannot agree with you at this time.

Mr. REGAN: Since you are a special act company, I gather from the provisions of the Companies Act that you cannot purchase shares of any other company unless you have special authority in your act.

Mr. VENNE: May I be permitted to answer that? We are empowered to own shares in Northern Electric under section 4 of our incorporating act. That just has been decided by the Board of Transport Commissioners for Canada.

Mr. REGAN: How does that section read?

Mr. VENNE: It is a long one.

Mr. REGAN: I do not want the full section.

Mr. VENNE: The last part reads:

The company shall also have power to enter into any arrangement with any person or company possessing, as proprietor, any line of telegraphic or telephonic communication, or any power or right to use communication by means of the telephone upon such terms and in such a manner as the board of directors may, from time to time, deem expedient or advisable, or to become a shareholder in any such corporation.

Mr. REGAN: But the Northern Electric Company Limited is not a company engaged in the telephone business.

Mr. CANTELON: On a question of privilege; I am sure Mr. Regan can obtain this information privately rather than seeking to obtain it now. We are away off the subject of what we are asked to do.

Mr. REGAN: Four of the directors already are officers of Northern Electric, and at least one of them holds a directorship in Bell Telephone Company because of the fact that he is chairman of the board. There is the question whether these new directors also would fall into that category. I think it is all tied into the corporate organization of this company, and is all essential to the discussion.

The CHAIRMAN: Mr. Cantelon, I do not see that we have strayed very far. I might say that the relationship of the evidence here is in the hands of the committee. There are no set rules concerning relevance or the type of evidence which is available in committee. Personally, as a lawyer, I would like to rule strictly and say we will speak only about increasing the number of directors; but, having been in the house for over 20 years, I realize the committees are masters of their own policy and destiny, and unless it is the view of the majority of the members of the committee that they want to stick to the strict wording of this proposed amendment, I would rule that questions which relate to interlocking directorates, or the power of a company to acquire another company, are in order.

Mr. ROCK: Mr. Chairman, further to this, if this company did not come here to change its charter—did not want to increase its board of directors—would we have the power to call them up and question them?

The CHAIRMAN: No.

Mr. ROCK: That is all I wanted to know.

Mr. REGAN: It seems to me that if the Bell Telephone Company has exceeded its corporate powers, we are greatly concerned with that. Perhaps they have not. You read a portion of section 4 of their special act; but, as I understand it, Northern Electric is not in the telephone business; its primary purpose is to produce electronic equipment and lines.

Mr. VENNE: Manufacturing.

Mr. REGAN: As a manufacturing company it sells not only to the Bell Telephone Company, but also sells in competition to private companies in the general market?

Mr. VENNE: Yes:

Mr. REGAN: How do you say that this act, which you have read, gives the power, if it is not a telephone company, to Bell Telephone Company to hold such a company?

Mr. VENNE: As I already stated, the question came up before the Board of Transport Commissioners for Canada about three months ago and the board decided that Northern Electric Company Limited produced, as proprietor, a line of telephonic communication and had a right to use communications by means of the telephone.

Mr. REGAN: This decision was made on a matter of fact by Commissioner Kirk; is that accurate?

Mr. VENNE: There were two commissioners who decided the issue. Chief Commissioner Kerr decided the legal question, and Mr. Kirk probably discussed the facts. Commissioner Kerr, the chief commissioner, decided the legal question.

Mr. REGAN: A court of law never has had occasion to review the question of whether Northern Electric really is a company in the telegraphic or telephonic communication in the telegraphic or telephonic communication field on the basis of one telephone line four miles long.

Mr. VENNE: The Board of Transport Commissioner for Canada is a court of record—a court of law. Mind you, it is not a superior court or a supreme court, but it is a court of law.

Mr. REGAN: Who delivered the reasons for the board?

Mr. VENNE: Chief Commissioner Kerr and Commissioner Kirk.

The CHAIRMAN: Is it necessary to go into this? This is a line of questioning which I think you could pursue for yourself.

Mr. REGAN: Fine. As I understand it, the Bell Telephone Company is in a monopoly position. As a company in a monopoly position operating a utility, do you not agree that they have certain responsibilities to the public and to other companies which would not apply to a company in an ordinary competitive business?

Mr. VENNE: Yes; I would say so.

Mr. REGAN: By the same token, you have the situation where Northern Electric Company Limited, because of the fact that it has the captive market of your company and also is selling to other customers, is able to provide competition to private companies by merely having extra production by reason of its guaranteed market to this public monopoly. Do you not feel that Bell, as a utility, would have an obligation to call tenders and buy its equipment in much the same way as does a department of government?

Mr. VENNE: No, because of the quantities and kind of special things we need. I think the tie between Northern Electric and Bell Telephone is what has permitted this company to give the kind of service we are giving at the cost we are giving it. If you think there is anything unfair, I do not agree with you, because we always have had a policy whereby Northern Electric has to sell at the best price to Bell; in other words, it is either as low as or lower than, and in most cases lower than, anybody else.

Mr. REGAN: In that event, if you feel you need Northern Electric for that reason, do you not feel that Northern Electric should withdraw from competition with private companies in other sectors?

Mr. VENNE: No. I feel that because of the volume everybody benefits by it.

Mr. REGAN: How do you determine the just price at which Northern Electric sells to the parent company?

Mr. VENNE: They are in competition with others, so, as I say, the price they sell to Bell is lower than the price at which they sell to others. After that they are on their own.

Mr. REGAN: Is the financial situation in respect of Northern Electric fully published to the board of transport commissioners?

Mr. VENNE: Yes; not only to the board of transport commissioners, but there is an annual report of Northern Electric which is published. I have it here, if you want to have it. Have you ever seen it?

Mr. REGAN: Yes.

Mr. COWAN: Mr. Chairman, Mr. Regan has not had an answer to his question in respect of how they determine the various prices being quoted.

The CHAIRMAN: I think we will let Mr. Regan ask his questions.

Mr. REGAN: You say the price is lower than that at which they sell to the rest of the market.

Mr. VENNE: The price to Bell is lower than the price to the other customers they have.

Mr. REGAN: Mr. Chairman, I am very concerned about this matter, because it appears to me it is quite possible that Bell Telephone Company has no legal right to hold any shares in Northern Electric, and that they are exceeding their corporate powers in doing so. I believe you would confirm that Northern Electric only operates a one-way telephone line of four miles in length.

Mr. VENNE: There are the courts in which to plead this, and I do not think we should review the case here.

Mr. ROCK: Mr. Chairman, I understand there has been a court case recently. I do not see quite why we should go ahead with this.

Mr. REGAN: Mr. Chairman, I submit that no legally trained man has decided on the facts in that case and only Commissioner Kirk. I am merely trying to retermine whether any properly constituted court has ever had a reference in respect of the matter of the corporate powers of this company.

Mr. VENNE: It was reviewed. The supreme court reviewed the appeal.

Mr. REGAN: Is it not a fact that the Supreme Court of Canada merely refused leave to appeal because a question of fact was involved as well as a question of law?

Mr. VENNE: Yes.

Mr. REGAN: So, the supreme court actually has not reviewed the corporate power?

Mr. VENNE: A judge did review this before he ruled there was no leave to appeal.

Mr. REGAN: I think you would agree that the basis for the refusal of leave was that no written reasons were given—

The CHAIRMAN: Mr. Regan, I think we are entering into a field that this committee cannot review; that is, the possibilities of an appeal or the grounds for the appeal, or what the judge would have done under other circumstances.

Mr. REGAN: He has now told us no appeal was heard; that is all I want to know.

The CHAIRMAN: Are there any other questions, Mr. Regan?

Mr. REGAN: Mr. Vincent, I am sure, as president of the company, you would be concerned if your company exceeded its corporate powers. Do you not feel it would be in the interests of determining this fact to have a reference to the supreme court on this matter to determine whether you actually do have power to hold shares in Northern Electric?

Mr. VINCENT: It has been done.

Mr. REGAN: Perhaps I will direct the question to your lawyer.

Mr. VENNE: The supreme court refused leave to appeal and gave no reasons. We do not know whether it was refused because it was not a question of law.

Mr. REGAN: Do you think it would be of interest to have it referred if there is a way it could be referred?

Mr. VINCENT: I cannot see the purpose in that. I think we already have a judgment of the court of record on this very matter.

Mr. ROCK: Mr. Chairman, a few members here already have asked for certain points of order. I will ask again that Mr. Regan stop this line of questioning.

I shall ask again that Mr. Regan stop that direction of his questioning. I do not think anybody in the room has said that he should go ahead. I think most of them have said that he should not do so.

The CHAIRMAN: Order. I am Chairman. I did rule that the line of questioning was all right up to a point. I have just asked that Mr. Regan discontinue asking questions about what might happen if a certain set of facts were before you.

Mr. BALCER: I think that the situation of the Bell Telephone owning 100 per cent of Northern Electric is of extreme interest to this committee. First, let us not forget that the rates and telephone service in the provinces of Quebec and Ontario are based on the expense and costs of various materials and services which are procured from the Northern Electric and supplied to the Bell Telephone. I think it is of paramount interest to this committee to have questions like those of Mr. Regan's answered, and also, speaking for myself, I am a little disturbed to see that the charter of Bell Telephone permits Bell Telephone to purchase companies which have telephone lines, when we know very well that the only line that the Northern Electric has is strictly a token line, about four miles long. I do not know what line it is, but it sounded rather strange. I think it is perfectly in order for members of parliament to ask questions on this point.

The CHAIRMAN: I would say that it was perfectly all right to ask questions about the relationship or operations between Northern Electric and Bell Telephone. But I thought the line of questioning was going into hypothetical matters assuming that the Bell Telephone should do certain things as a result of a court action. That is altogether different. I am not ruling against asking questions which are directly connected with the business of the Bell Telephone Company of Canada at the present time.

*(Translation)*

Mr. BEAULÉ: On a point of order, Mr. Chairman, there are Crown Companies who sit on the committee and are represented by company presidents. Today we have a private company here, the Bell Telephone Company, who do as they please. Because I maintain there is still a monopoly in Canada.

I think the members have the right to ask questions concerning the activities of the Bell Telephone Company. I also think the public have the right to know what that company intends to do for our constituents.

The CHAIRMAN: That is precisely the case today. We should discuss matters concerning the Bell Telephone and not decisions handed down in court by a judge on some point.

There is a matter which constitutes the basis for discussion at this time and concerns the Bell Telephone Company. It is a matter we should discuss without discussing the reasons why a judge hands down a certain decision.

Mr. BEAULÉ: On a point of order. If you recall, when the committee before which Mr. Gordon gave evidence was sitting, a decision was handed down in the Quebec court regarding road transportation. The committee allowed similar discussions in that field. I think that is the way it should be.

The CHAIRMAN: If I remember rightly no decision was handed down in that case—

Mr. BEAULÉ: No. Mr. Chairman, a decision was handed down.

(Text)

Mr. REGAN: Mr. Chairman, on a point of order, I would like to say why I feel it is necessary. Perhaps members of the committee will understand why it is necessary to go fairly deep into this matter, because the purpose of the special act is to restrict the purpose and the actions of the company. If the mere fact that the company owns one telephone line as an incidental portion of its vast operation enables the Bell to buy shares in that company, then there would be nothing to prevent the Bell from buying one little telephone line, or erecting one, whereupon the Bell could legally buy out a multimillion dollar enterprise. I am sure it was not the purpose of the Bell at that time to do this.

The CHAIRMAN: You have made that statement.

Mr. REGAN: If additional directors are granted, is it your intention to have any of the new directors added to your company from the Northern Electric Company?

Mr. VINCENT: No, it is not our intention.

Mr. REGAN: You say it is not your intention. Those are all the questions I have.

(Translation)

Mr. BEAULÉ: Mr. Chairman, a moment ago in the submission presented by the company's lawyer, some figures were given. He stated that 97% of the company's shareholders resided in Canada and that the other 3% resided outside Canada— What percentage of shares is held by the 3% who— reside outside Canada?

Mr. VINCENT: —It is 2.8—

Mr. BEAULÉ: That is not what I am asking. What percentage of shares is held by the 3% who reside outside Canada?

Mr. VINCENT: Seven per cent, outside Canada—

Mr. BEAULÉ: Who have shares in the Bell Telephone Company? A few moments ago figures were mentioned, that from 1880 to 1927 the company was allowed to have 15 directors. At that time, was it not too much to have 15 directors?

Mr. VINCENT: In 1927—

Mr. BEAULÉ: You were allowed 15.

Mr. VINCENT: We have had 15, from 1927 on we have had 15. Before 1927 there were not always 15.

Mr. BEAULÉ: Now, with 15 directors, is that not sufficient for the entire administration?

Mr. VINCENT: We should have a little more leeway.

We should be able to do things—things?

Mr. BEAULÉ: What things?

Mr. VINCENT: Things we want to have. We want to have better representation from the standpoint of territory. We might want— I would personally like to have a seat on the board so that our vice-presidents could take turns on the board for a period of six months, for instance, so that the directors could have an opportunity to get to know our officers.

So there would be one seat for the vice-presidents who would be appointed director in turn for a period of six months so that they would have an opportunity to get to know our people. It is a good thing, it would be a good thing if our vice-presidents could know the people who are there.

Mr. BEAULÉ: Would these vice-presidents who would sit on the board for six months or a year remain with the company?

Mr. VINCENT: No, they would resign after six months.

Mr. BEAULÉ: That would leave a vacancy.

Mr. VINCENT: That would leave a vacancy, so that the officers could be there for six months, so that they could be better known.

Mr. BEAULÉ: That does not correspond with your statement. The statement of the committee saying that it was the increase in staff—

Mr. VINCENT: It is one of the considerations.

Mr. BEAULÉ: It is one of the considerations.

Mr. VINCENT: There is another consideration. Some directors are sick or absent. We have very little leeway. The other one has not resigned yet, he is still on the board. We can appoint 17 or 18. If 2 are sick, that still leaves a fair number, 15 or 17 out of 20. With 20 we should be able to reach that figure.

At the present time with 15, if any of them are sick, we frequently have a meeting with 13 or 12. We would also like to have better representation from the people who are very active in the business.

Mr. BEAULÉ: Do you mean some members of the board are not very active?

Mr. VINCENT: The age limit at the present time is 72. In some cases people retire at 68 or at 70. We have very little margin. We certainly have a minimum of 15 on the board. If a couple of them are absent and 17 remain, we have at least 15 or over 15.

Mr. BEAULÉ: It is not a matter of increased business, it is a matter of having 15 directors, or 17, or 18 directors who will sit on the board?

Mr. VINCENT: In view of the size of the business we cannot have less than 15 directors. At the present time that is the case for the board.

Mr. BEAULÉ: Do you think that could solve the problem?

Mr. VINCENT: Yes, it would be an advantage. We can have 17 or 18, so—

Mr. BEAULÉ: If you appoint 20 directors for the company, will the administration increase?

Mr. VINCENT: The administration—

Mr. BEAULÉ: The cost of administration? Are those people going to be paid?

Mr. VINCENT: Like those who are there at present. At the present time those who are on the board get \$2,000 a year and \$100 for each meeting. Of the 15, there are now 9 who are members of the executive committee and have to attend a second meeting during the month. The board meets once a month, on the 4th Wednesday and the executive meet on the 2nd Wednesday.

Those who are on the executive committee get an extra \$3,000. I must point out that those people are not only obliged to assist at 2 meetings but they have quite a lot of work to do besides that. They receive a large volume of documents and are consulted over the 'phone. People go to see them at the office and even outside. They have a certain amount of work to do.

Mr. BEAULÉ: How many times in recent years have the 15 directors been present?

Mr. VINCENT: At how many meetings did we have 15 directors?

Mr. BEAULÉ: In recent years?

Mr. VINCENT: That is rather difficult to answer but I would say that there are very few meetings at which all 15 are present.

Mr. BEAULÉ: On this I would point out, Mr. Chairman, that if the figure is increased from 15 to 20, if they are not capable of having 15 directors on the board at the present time how will they be able to get 20 if the 15 they already have do not assist.

Mr. VINCENT: No, that is not what I meant. If at a given time we have 12 or 13 directors, and at another we have 18, according to the constitution, then there is a chance that we shall have 15.

Mr. BEAULÉ: Would it still not be better to have 15?

Mr. VINCENT: Some may be absent occasionally. That does not mean that the man is not capable of doing the work, it has nothing to do with their qualifications.

Mr. BEAULÉ: A large company like the Bell Telephone, when they call a meeting, it seems to me that a large company like that, as the Bell Telephone is indeed a large company, it seems to me that the directors should be there to know what happens at meetings.

Mr. VINCENT: I think there is nothing exceptional about the Bell Telephone. It is not possible to have all the members there just as you cannot have all the members present in the House.

Mr. BEAULÉ: You want to increase the number of directors from 15 to 20. If you are not able to complete the administration with 15 you will be even less capable of completing it with 20.

Mr. VINCENT: I do not understand what you mean. I mean that if we increase the number there is a better chance of having more people at meetings.

Mr. BEAULÉ: I agree. A while ago people were specific. We got figures concerning the company's equipment, for example. That is why, because of increasing sales, because of the staff and the new turnover of the company, you want more directors for the administration because that creates additional problems and more serious problems.

You tell me it is not a matter of figures, is it a matter of attendance?

Mr. VINCENT: Certainly, the figures show the size of the company at the present time and it should have a few more members on the board and a few more representatives at meetings. The figures Mr. Venne gave you were to show that we should have a little more opportunity to increase.

Mr. BEAULÉ: I have asked several questions. I would like to know whether in reality, having those directors might bring about an important project about which we know nothing.

Mr. VINCENT: No, that has nothing to do—

Mr. BEAULÉ: About which we know nothing—

Mr. VINCENT: That has nothing to do with any contemplated project. It is simply a matter of regular, ordinary administration. We find at the present time that we should have a little more leeway.

Mr. BEAULÉ: It would not bring about an increase in telephone costs at any place.

(Text)

The CHAIRMAN: Now, Mr. MacEwan.

Mr. MACEWAN: I have a couple of questions. I take it that Bell does not obtain supplies from any company other than from Northern?

Mr. VINCENT: No, that is not right. We do buy some outside.

Mr. MACEWAN: Do you call for tenders for these purchases?

Mr. VINCENT: At times we would call for tenders. It all depends on what it is.

Mr. MACEWAN: According to the type of equipment; in other words, Northern cannot supply all the equipment for Bell.

Mr. VINCENT: Again, I think it depends. Sometimes there are special items that they do not have.

Mr. MACEWAN: Percentagewise, how much do you buy from Northern, and how much from outside of Northern?

Mr. VINCENT: I would say that the sales of Northern are something in the order of \$300,000,000. We take a little bit more than one half of it in Bell. As compared to what we buy outside, I have a little difficulty in answering you now, but I could get it for you.

Mr. MACEWAN: All right.

Mr. VINCENT: Let me say this that it is very small compared to what we buy from Northern. What we buy from Northern is not all manufactured by Northern. There are some 6,000 suppliers involved in what Northern and Bell people do; it is in the order of 6,000 suppliers. This includes raw materials as well.

Mr. MACEWAN: It can be said fairly that Bell is certainly the biggest customer of Northern.

Mr. VINCENT: That is right.

Mr. MACEWAN: Of course this would reflect on the prices, would it not, at which Northern can provide supplies for other companies?

Mr. VINCENT: Well, I suppose so, but the volume might help.

Mr. MACEWAN: It would assist, and I take it that as far as your charter is concerned, your company believes, on the basis of the ruling by the board of transport commissioners, that it has the right to own Northern and to have interlocking directorates and so on?

Mr. VINCENT: Not only do we believe that we have the right, but we think that it is greatly to the benefit of the telephone service and the cost, and to the general expansion of the country. I think the fact that we have doubled in the last ten years shows this. What had happened between 1880 and 1953 was doubled between 1953 and 1963. I do not think that kind of thing would have been done without this Bell-Northern matter.

Mr. MACEWAN: Has there ever been any suggestion put to the company regarding an investigation by the combines branch of the Department of Justice? Have there ever been talks about that?

Mr. VINCENT: I do not know of any. Do you know of any, Mr. Venne?

Mr. VENNE: They have applied to us for certain answers, but they have never investigated us.

Mr. MACEWAN: You say they never carried out an investigation.

Mr. VENNE: They have asked questions of us.

Mr. MACEWAN: Have there been any questions asked recently?

Mr. VENNE: We have not had any questions from the combines commission for two years, I think.

Mr. MACDONALD: Was Northern Electric a party to the wire and cable prosecution?

Mr. VENNE: No.

Mr. MACDONALD: You were not subject to investigation in the wire and cable investigation?

Mr. VENNE: In that case there were two questions: One, whether Bell Telephone could hold shares in Northern; and two, the second question was—

Mr. MACDONALD: That is not what I asked. The wire and cable industries have been under almost continuous scrutiny by the Department of Justice in connection with their operations. Was Northern Electric a party to those proceedings?

Mr. VENNE: I cannot answer that question.

Mr. MACDONALD: I am rather interested in Mr. Regan's proposition that if by reason of establishing a very limited telephone connection you could get corporate power to invest in almost any business in the country, you would then be in a position to do so. It seems to me that Bell Telephone is confined to operating a telephone system. You say that their position is that it should be to the benefit of the country. Do you feel it is essential to the operation of Bell Telephone that it compete with wire, cable, and other manufacturers in the electronic business?

Mr. VINCENT: I think this is essentially why we have Northern. But you said something else.

Mr. MACDONALD: Is it essential to the operation of a good telephone system that you have this business such as Northern Electric which competes not only in the supply of telephone equipment but also with other private firms?

Mr. VINCENT: That is right.

Mr. MACDONALD: What is the position in the United States, then, with your associated company there?

Mr. VINCENT: The American Telephone and Telegraph Company owns Western too.

Mr. MACDONALD: Is it not a fact that A.T. & T. were compelled under the Sherman anti-trust act to divest themselves of this operation?

Mr. VINCENT: I do not know. Could you answer, Mr. Venne?

Mr. VENNE: Well, it was.

Mr. VINCENT: I do not know that they were compelled.

Mr. VENNE: There was a consent decree which limited somewhat the amount of holdings by A. T. & T. of Western Electric, but it did not go very far about limiting their powers.

Mr. MACDONALD: I was not familiar with the fact that Northern publishes a financial statement. To whom is that financial statement made available? Is it an annual report?

Mr. VINCENT: There were some 8,000 copies printed.

Mr. MACDONALD: Is it sent out to the Bell shareholders, and is it filed with the board of transport commissioners?

Mr. VINCENT: No, it is not sent to the Bell shareholders.

Mr. VENNE: Yes, I have sent copies of the Northern Electric financial statement to the board of transport commissioners.

Mr. MACDONALD: When you make application for recapitalization, is Northern Electric taken into consideration from the standpoint of determining adequate capital or adequate return on your investment?

Mr. VENNE: No, that question has not come up.

Mr. R. C. SCRIVENER (*Vice-President, Bell Telephone Company of Canada*): In all our rate applications the board of transport commissioners has satisfied itself basically on two points: One, that the prices we pay to Northern Electric are fair and reasonable; two: that our investment in Northern is returning adequate returns to justify that investment. These have been specific aspects

of a number of cases before the board of transport commissioners. Naturally, their findings are on record in the matter.

Mr. MACDONALD: Does the Northern Electric Company report to the board of transport commissioners as does the Bell?

Mr. SCRIVENER: Yes.

Mr. MACDONALD: On what do they base that information?

Mr. SCRIVENER: It has been based on financial considerations such as an examination of the records, the profits and the non-profits, during these applications. You will see it in the report of the Bell. Bell reports continuously to the board of transport commissioners, but Northern does not. However, during the applications the board has had complete latitude to ask whatever questions it wishes with respect to the Bell-Northern arrangement.

Mr. MACDONALD: Might I have a copy of the Northern annual report?

Mr. SCRIVENER: My copy is scribbled on, but it is not secret.

Mr. MACDONALD: Would you object to making it public?

Mr. SCRIVENER: Not a bit. Several thousand copies have been distributed. They are sent to suppliers and to investment people, and obviously to the shareholders. There is a big distribution to Northern employees and Bell employees and to anyone who wants a copy. If you wish to have a copy, just call us.

Mr. MACDONALD: That is all.

Mr. ADDISON: I would like to ask Mr. Vincent if his board of directors have made any study of the effect on the province or on a group of provinces with regard to the nationalization of his operations?

Mr. VINCENT: No, I do not think we have.

Mr. ADDISON: You say you have made no study of that type. In your group of 15 directors is there a committee now in fact that studies the effect of telephone lines and overhead lines, on new planned communities?

Mr. VINCENT: A committee of the board of directors?

Mr. ADDISON: Yes.

Mr. VINCENT: No. They do not go into that kind of thing. They do report on the operations. They approve the capital expenditures, and not only that, but they go into what it is for and where it is. They go over the estimates for each budget.

Mr. ADDISON: Would the board of directors be consulted with reference to a major policy shift such as the question of placing telephone communication wires underground; would they be consulted on that policy?

Mr. VINCENT: Yes. They are kept aware of that.

Mr. ADDISON: Is there any intended policy change along this line?

Mr. VINCENT: We are trying to do as much as we can, particularly in co-operation with other companies such as the power companies. I think we have made a great deal of progress. Of course, this is a lot easier in major cities than it is in small villages. We have done a lot of this and hope to do a great deal more, not only underground along the main streets, but also in respect of dropped wires going right to the houses.

Mr. SCRIVENER: Basically our policy is that the choice is to bury, but we run into various problems. This is a complicated matter. There is the problem of burying the wires jointly with hydro. Some terrain is easy to bury in, and other is most difficult. Where you have to blast rock there are problems. Sometimes you find there are 20 feet of earth to the rear of the houses. This earth has not been graded and the people have moved in. You cannot bury beneath that 20 feet. However, the first choice is to bury; this is our basic policy.

Mr. ADDISON: Mr. Chairman, I appreciate your leniency in permitting this line of questions. I have just one more question. Might these new people be used in respect of any project which might be in the planning stage?

Mr. VINCENT: No; we have nothing like that in mind.

Mr. ADDISON: You are not thinking about going into the space business, or buying any companies?

Mr. VINCENT: Nothing whatsoever of that nature.

Mr. ADDISON: Thank you.

Mr. ROCK: Mr. Vincent, I see in your financial report that your company pays over \$63 million in income taxes. I notice, also, that the total number of shareholders is over 195,000 and that over 97 per cent are Canadian. Also, I see that you have over 26 million shares, and they are over 93 per cent Canadian-owned, or held in Canada. Are these shares voting shares?

Mr. VINCENT: They all are voting shares. We have a very simple capital structure. It is all common stock and they all are voting shares.

Mr. ROCK: I always realized that your company is the most free enterprise company in Canada—

Some hon. MEMBERS: Oh, oh!

Mr. ROCK: —where many people are able to buy shares in the company.

Mr. REGAN: You can be one of the new directors.

The CHAIRMAN: Order.

Mr. ROCK: When you have the power to have additional directors, will the shareholders have the authority to vote in the new directors?

Mr. VINCENT: Yes, at the annual meeting.

Mr. ROCK: How many shareholders usually appear at your annual meeting?

Mr. VINCENT: The last meeting had the highest number we have ever had, and as I recall it there were between 300 and 400 people; let us say about 350.

Mr. ROCK: Are there such things as proxies?

Mr. VINCENT: Yes, of course.

(Translation)

Mr. BALCER: Mr. Chairman, I believe in private enterprise. Now, in the province of Quebec, as you know, the provincial government have nationalized electricity. Now and again it is said that the government ought to nationalize the Bell Telephone. In these circumstances I would like to allow the president to answer those questions.

According to certain articles that came out recently, that were published recently to the effect that people who are serviced by the Bell Telephone Company in the province of Quebec and in Ontario pay more than those serviced by nationalized companies in the western provinces such as Saskatchewan, Manitoba and Alberta, and I would like the president to give us an answer in that connection. I was surprised to read about it in the paper especially when you consider that the Bell Telephone now have 4 million telephone sets and an enormous capital and have a joint service with the Northern Electric who have the same president.

The service the Northern Electric carry out for the Bell Telephone Company enables them to pay less for their equipment.

This is what I am wondering: could the president, could Mr. Vincent tell us why rates are higher for the Bell Telephone than in the territories serviced by Crown companies like those in Alberta, Saskatchewan and Manitoba?

Mr. VINCENT: You have asked me several questions there, Mr. Balcer.

Mr. BALCER: My question is: Why are the Bell Telephone rates higher than those of the Crown Corporations in Alberta or Saskatchewan.

Mr. VINCENT: Do you mean the rates are higher under identical conditions, for the same number of telephones, or that the rates are higher in Montreal than in Edmonton, there is no comparison between Montreal and Edmonton. It would be necessary to compare the rates with the same number of telephones.

I am perhaps not sufficiently familiar with the rates in some of these cities. I was not under the impression that the rates were higher in Ontario and Quebec for the same exchange or for the same exchanges in those places.

Mr. BALCER: There was an article in the press the other day which gave a lot of details. I am sure you have read it.

Mr. VINCENT: I was under the impression that the present rates are more or less the same as those of companies with provincial networks, as you say, in Alberta, Manitoba and Saskatchewan, that their rates are the same as in Quebec. We have a lot more—

(Text)

Mr. BALCER: Mr. Chairman, Mr. Cantelon tells me his monthly rate is \$3.65 and in Ottawa it is \$5.65 for the same service.

Mr. VINCENT: What would be the population?

Mr. CANTELON: There is a great difference. It is about 2,200.

Mr. VINCENT: That is the difficulty in making comparisons. You would have to take a community with 25 telephones and see whether it is comparable.

Mr. BALCER: I am sure in the Bell Telephone you must have made comparative surveys and are able to answer this type of question.

Mr. VINCENT: I would like to look at this and give you the answer.

Mr. BALCER: This is the kind of argument people use.

Mr. VINCENT: Yes, but in making a comparison you would compare Edmonton to Montreal.

Mr. SCRIVENER: How many people did you say there were in your community?

Mr. CANTELON: Twenty two hundred; but it serves North Battleford, Wilkie and Unity, and a number of other communities.

Mr. SCRIVENER: I am guessing at the number of telephones in that exchange, but an individual residence line in our territory would be somewhere between \$3.75 and \$4.

Mr. REGAN: Why is it higher in a larger town?

Mr. SCRIVENER: Because of the scope of the service area. The greater the number of telephones you can call and be called from, the greater the value of the service.

Mr. MACDONALD: In a smaller area you would have to pay a toll charge outside the area?

Mr. SCRIVENER: Yes.

Mr. BALCER: As a result of that article which recently appeared in the papers there is the impression that Bell is charging \$5 and in the other provinces it is only \$3.

Mr. VINCENT: I will be glad to send you a comparison.

Mr. BALCER: I think it is important that we have this clarified.

The CHAIRMAN: Are there any other questions?

Mr. COWAN: Mr. Scrivener just made the statement that if there were more telephones available on the exchange, the rate should be higher. In heaven's name, do you not make more money because of the fact that there are more telephones and you ask each subscriber to pay a monthly bill? Then you say you should raise the rate because there are more people available on the telephone.

Mr. SCRIVENER: The economics of communications are such that every user must be interconnected with every other user. If you have two telephones, it takes one line to connect them.

Mr. COWAN: I did not know that before; thank you.

Mr. SCRIVENER: If you have three telephones, then it takes three lines to interconnect them. The more telephones you have, the more complex are the interconnections in order to permit each telephone user to speak to the other. This involves us in the complexity of a metropolitan area like Ottawa, Montreal or Toronto as opposed to a small rural community where there are a few telephones and where a simple switchboard will interconnect them. Therefore, with telephone service, the cost of providing it tends to be upward as you increase the complexity of the interconnection.

Mr. COWAN: The more telephones there are, the higher the rate?

Mr. SCRIVENER: The higher the cost of providing the service and the greater value of the service.

Mr. COWAN: Mr. Regan asked a question of Mr. Vincent; he asked him what proportion of the Bell Telephone Company's purchases go to the Northern Electric Company. He received an answer telling him what was the percentage of sales of Northern Electric. What percentage of the purchases by Bell Telephone Company go to Northern Electric?

Mr. VINCENT: Do you mean all purchases from Northern Electric as against the total purchases?

Mr. COWAN: Yes.

Mr. VINCENT: I do not have the amount. The purchases from Northern Electric are roughly \$150 million. I do not have the figures for the rest, but I think they would be fairly small.

Mr. COWAN: How much equipment does the Bell Telephone Company buy in a year from everybody, from the whole 6,000 suppliers you are talking about? I am interested in knowing what is the percentage purchased from Northern Electric.

Mr. VINCENT: It is a very high percentage.

Mr. COWAN: Can you give me the percentage?

Mr. VINCENT: I will get it for you.

Mr. COWAN: If you give it to me, the committee will not be here to hear the answer.

Mr. VINCENT: If I say it is in the order of 90 per cent, would that be good enough?

Mr. COWAN: Yes.

Mr. VINCENT: The rest of it is small. If you want to know whether it is 92 or 93 per cent, or what, I cannot tell you.

Mr. COWAN: Ninety per cent is fine. If the Bell Telephone Company, for instance, buys equipment from Lake Ontario Electric Supply, and they in turn have bought it from Northern Electric, do you show it as a purchase from the supplier, or from Northern Electric?

Mr. VINCENT: I never heard of that.

Mr. COWAN: I am using the name Lake Ontario Electric as a case in point. I wonder how many of the suppliers you mention are distributors for Northern Electric?

Mr. SCRIVENER: Obviously, if Northern Electric manufactures something we can obtain it cheaper from them than through a distributor.

Mr. COWAN: Yes, but there is nothing to stop you buying it from a distributor to show that you buy from a large number of people.

Mr. SCRIVENER: The Northern Electric Company buys from 5,000 or 6,000 different suppliers each year. That has nothing to do with the distribution of any products it manufactures.

Mr. COWAN: I think with the 90 per cent figure you are not doing too badly. Now there is absolutely no control. If Northern Electric quote equipment priced at \$1 million and somebody else at \$850,000 there is nothing to force the Bell Telephone Company to take the \$850,000 price.

Mr. SCRIVENER: I do not know whether you could make a comparison with the type of equipment. How can you compare? Most of the things we buy cannot be compared. How do you compare a cross balance office? Who else is going to produce it?

Mr. COWAN: You have answered my question indirectly by showing that the price you pay Northern Electric is none of our business on the basis that you cannot get it from another supplier.

Mr. SCRIVENER: We have bought switching equipment from outside Northern Electric.

Mr. COWAN: Since the Bell Telephone can pay what it likes to Northern Electric, you say it is the concern of Northern Electric.

Mr. SCRIVENER: I suppose like any business we do the best we can on our purchases.

Mr. COWAN: A lot of us do not think you do.

Mr. SCRIVENER: What makes you say that?

Mr. COWAN: Because Northern Electric stock is so closely held.

Mr. SCRIVENER: You conclude that because we hold the stock we do an uneconomical business; that is, that we do not operate economically because we own it.

Mr. COWAN: There is no regulation of the long distance telephone rate in Ontario and Quebec, is there?

Mr. SCRIVENER: Yes, of course.

Mr. COWAN: I ask this in view of the letter written under date of August 30, 1961, by Mr. Crump of the C.P.R. and Mr. Gordon of the C.N.R. to the Hon. Mr. Balcer in which they point out that the public long distance telephone rates in Canada are 50 per cent or more above comparable rates in the United States which are regulated by the federal communications commission. Is this statement of Messrs. Crump and Gordon of a 50 per cent excess charge on long distance rates in Canada correct?

Mr. VINCENT: I think it probably is correct. Whether the percentage is correct or not, the fact is that the rates are higher in Canada than they are in the United States. The development is not comparable at all; we have a very scattered population from one ocean to another.

(Translation)

Mr. BEAULÉ: Mr. Chairman, on a point of order, there is something wrong. We were told a while ago that the rates are lower because the centres are smaller.

(Text)

The CHAIRMAN: Order, please.

Mr. Beaulé, let Mr. Cowan finish his questioning.

Mr. COWAN: This public letter dated August 30, 1961, written to Mr. Balcer never has been publicly challenged by anyone in the Bell Telephone Company. In 1960 the C.B.C. advertised for a ten year service to supply programming to the radio stations of Canada. It so happens that in Canada the C.N.R. has a line service available in Newfoundland and up in the Yukon Territory. The Bell Telephone Company put in a tender on that contract and secured the contract from the C.B.C. Can you tell me why the Bell Telephone Company did not speak to the C.N.R. first to find out what would be the sub-contract price in Newfoundland and the Yukon Territory. Do you often tender as a prime contractor without asking the subcontractor for his price first?

Mr. VINCENT: I think that was done after the contract. We did get the facilities from the railways after we got the contract—in bits.

Mr. COWAN: How were you able to make a bid in the first place without knowing what the subcontractor would tender?

Mr. VINCENT: I think we knew.

Mr. COWAN: How would you know?

Mr. VINCENT: From experience we do have an idea of the rates when we get facilities from the railways.

Mr. SCRIVENER: They have established commercial rates just as we have. We knew that if we wanted facilities from them at any point, they would be available to us at their standard commercial rates, and vice versa. If they were tendering they knew they could obtain from us some facilities at our standard commercial rates. We were tendering assuming we could obtain from them any facilities we may require at their standard published commercial rates.

Mr. COWAN: Mr. Gordon and Mr. Crump stated:

Assuming that it is in the national interest to maintain competition in the communications industry, we think you will agree that such competition cannot be preserved if one group is permitted to quote depressed rates in the competitive situation and to obtain recompense through higher rates for other services.

Mr. SCRIVENER: This is not so. These rates are approved by the board of transport commissioners in the same way as others.

Mr. COWAN: You probably tell the board of transport commissioners that you cannot operate at less than these rates which are 50 per cent higher than the United States rates.

Mr. SCRIVENER: Because of the development in Canada, sure.

Mr. ROCK: According to your report you own 100 per cent of Northern Electric which means that the profits of Northern Electric actually go to the Bell Telephone Company. Does this also mean that the shareholders of Bell Telephone benefit from this profit?

Mr. VINCENT: Of course.

Mr. ROCK: The reason I am asking this is somebody said here that because the Bell Telephone Company owns Northern Electric it is detrimental to the shareholders of Bell Telephone. I say it is not detrimental; it is to their benefit.

An hon. MEMBER: Users.

Mr. ROCK: They did not say users; they said shareholders of Bell Telephone.

(Translation)

Mr. LACHANCE: I would like to know, Mr. Chairman, perhaps we have already had an answer to this question, I would like to know the percentage of sales of Northern Electric . . . It was stated that it was 90% to the Bell Telephone Company. Is that correct?

Mr. VINCENT: Ninety per cent?

Mr. LACHANCE: Do Northern Electric sell to other companies?

Mr. VINCENT: Yes, approximately 50% of Northern Electric sales are to the Bell Telephone Company, the remainder are to others, but about half their sales are to the Bell Telephone Company.

Mr. LACHANCE: What is the procedure, what scale is used for sales to other interests besides the Bell Telephone Company?

Mr. VINCENT: They are in competition with others, they do the best they can. Apart from that, it can happen that sales to other companies are higher than those to Bell. But at the present time 52 or 53% of Northern Electric's sales are to Bell.

It could happen at some time that sales to others than Bell would be greater than those to Bell. But so far that has not happened.

Mr. BEAULÉ: I am rather confused, Mr. Chairman. A while ago we were told that rates were lower in a small centre because of the equipment and modernization in larger centres.

If we take Three Rivers, Quebec and Montreal the comparison is as follows: The population of Three Rivers is seventy-five thousand, that of Quebec two hundred thousand and that of Montreal a million and a half, but the rates are about the same.

A moment ago we were told, for example, that rates are higher in Canada than in the States, is that because the population is greater there than in Canada?

Mr. VINCENT: It is not only because the population is greater. It may also be a matter of development, the number of long distance calls.

Mr. BEAULÉ: A moment ago we were told that the larger the population, the higher the rates . . .

Mr. VINCENT: Long distance . . .

Mr. BEAULÉ: So if the population is greater in the United States the rates should be higher.

Mr. VINCENT: We are not talking of exchanges now, we are talking of long distance. When we say there is greater development in the United States than here, we mean long distance.

Mr. BEAULÉ: Let us take the case of Quebec, Three Rivers and Montreal. Montreal's population is seven times greater than that of Quebec.

Mr. VINCENT: Your comparison . . .

Mr. BEAULÉ: It is easier to understand. Quebec has a population of two hundred thousand and Montreal a population of one-and-a-half million.

Mr. VINCENT: You are comparing the rates for local exchanges. You should compare it with long distance.

Mr. BEAULÉ: It should be compared with long distance. But a while ago it was said that the equipment costs more.

Mr. VINCENT: For local service.

Mr. BEAULÉ: In Montreal you have a population of one-and-a-half million and in Quebec you have two hundred thousand.

Mr. VINCENT: It costs more for local service.

Mr. BEAULÉ: What is the difference?

Mr. SCRIVENER: An individual line in Montreal costs \$5.85 and in Quebec, \$5.30.

Mr. BEAULÉ: And in Ottawa?

Mr. SCRIVENER: The same as in Quebec, \$5.30 for an individual line.

Mr. BEAULÉ: \$5.85?

Mr. SCRIVENER: The sales price.

Mr. BEAULÉ: All right. Now, another question.

Mr. BEAULÉ: You want to increase the number of directors from 15 to 20. If the board of directors had to vote and there was an equal...

Mr. VINCENT: The President of the board would abstain I suppose.

Mr. BEAULÉ: That is what you suppose. I am asking you, if a matter has to be voted on and if one director was sitting and there was an equal number, is the President not considered to be a director?

Mr. VINCENT: He might not vote.

Mr. BEAULÉ: All 20 directors might not be of the same opinion.

Mr. VINCENT: You want to have 19 or 21 directors?

Mr. BEAULÉ: Normally you need an uneven number.

Mr. VINCENT: That is perhaps a good suggestion, we would ask for 19 or 21.

Mr. BEAULÉ: 19.

Mr. BALCER: A while ago we were told that in the United States long distance is less expensive because there is greater concentration. In that case why are rates lower in the Prairie provinces where the population is less concentrated, than in the Toronto and Montreal areas.

Mr. VINCENT: That is again a comparison. You say that long distance is cheaper in the Prairie provinces than in Ontario or Quebec?

Mr. BALCER: Yes, I have seen that for myself, unless there has been a change. It is less expensive. I think the company should provide the committee with all that data.

The CHAIRMAN: Yes.

Mr. BALCER: Comparative figures for the various provinces of Canada and a comparison with the United States.

The CHAIRMAN: Could you provide us with that information Mr. Vincent?

Mr. VINCENT: Certainly.

(Text)

The CHAIRMAN: Now, Mr. Macdonald.

Mr. MACDONALD: Will one of the new directors be a nominee of A. T. & T.?

Mr. VINCENT: There is one now, and we would expect that there would still be one.

Mr. MACDONALD: You mean there will be no increase in that regard?

Mr. VINCENT: No.

Mr. MACDONALD: You said that the A. T. & T. had about 2 per cent of your stock, but that is not effective control.

Mr. VINCENT: No, actually on the question of ownership and so on we have an American director, but it is not because of the 2.8 per cent; it is because we operate a continental network. Our main link with the Bell system is not this ownership; it is not the 2.8 per cent. We have a service agreement whereby we benefit from a lot of research work which is done down there—although in recent years we are bringing about an increase in our research work done right here in Ottawa through the Northern lab. I think we will always depend

on them, because from the Bell lab, we get a lot of advice on how to operate the continental network. That is why we like to have one of the representatives from the United States.

Mr. MACDONALD: You have an extensive contractual arrangement with A. T. & T.?

Mr. VINCENT: We have this agreement from which we benefit from the work done at the Bell lab. They employ 15,000 people there, and it is a very large affair.

Mr. MACDONALD: And you pay a share of that service?

Mr. VINCENT: The way it is done is that we pay 1 per cent of our revenue.

Mr. MACDONALD: Is that agreement scrutinized as well by the board of transport commissioners?

Mr. VINCENT: Yes.

Mr. COWAN: Do you pay 1 per cent of your gross revenue or of your net revenue?

Mr. VINCENT: We pay 1 per cent of our gross revenue.

Mr. MACDONALD: Does this agreement give you access to research and patents and other property? Is there any other point covered?

Mr. VINCENT: Oh, yes, there is a great deal more in the way of accounting practices, construction methods, plant management, and all new developments in installation work and that kind of thing. It goes far beyond just research matters. I think that maybe this is one of the most important things.

Mr. SCRIVENER: In looking at the company from the point of view of operations, I want to know how good a job we are doing, how we can improve it, and how we can do a better job. There is complete interchange of information. For instance, if I want to know what they are doing, let us say, at Cleveland or at Los Angeles, in order to find out if we could do something better, they provide that information. We are continually comparing their operations with our operations in complete and extensive detail. As a result of it, I am personally satisfied that we have been able to provide a superior and better service, and to provide an incentive and motivation to our people to do a better job because we are constantly competing with every telephone company in the Bell system in the United States.

Mr. MACDONALD: In regard to industrial development here, and I mean industrial design and patents, do you get some compensation from them for what you give to them?

Mr. SCRIVENER: There is a reciprocal patent arrangement.

Mr. MACDONALD: Northern does around \$7,000,000 to \$8,000,000 export business. Does any of it go into the North American market?

Mr. VINCENT: Most of it, I would say, but there are plans to get a great deal more outside the continent.

Mr. MACDONALD: Is there any contractual inhibition against your getting into the American market to supply equipment for A. T. & T. and their subsidiaries?

Mr. VINCENT: No. A good deal is sold to the telephone companies down there. Do you mean that the American suppliers resent Northern selling down there?

Mr. MACDONALD: No, I would put it stronger. Are there contractual arrangements with A. T. & T. which prevent you from getting into their territory?

Mr. VINCENT: No.

Mr. SCRIVENER: We recently sold Western Electric several million dollars worth of cable.

The CHAIRMAN: Now, Mr. Lachance.

(Translation)

Mr. LACHANCE: Mr. Chairman, to revert to Northern Electric, if I understood correctly you said that approximately 54 or 55% of Northern Electric sales are to the Bell Telephone Company.

Mr. VINCENT: Something like that.

Mr. LACHANCE: Which would leave approximately 45% outside the Bell Telephone and the Northern Electric. From what I understand Northern Electric sells to competitors of the Bell Telephone.

Mr. VINCENT: When you say competitors do you mean other telephone companies?

Mr. LACHANCE: Yes.

Mr. VINCENT: They are not called competitors.

Mr. LACHANCE: They are not competitors?

Mr. VINCENT: Because if they want to sell, because if they sell to organizations we are not going to set up business in Manitoba or elsewhere. There are never two telephone companies in one and the same city. What you mean is, do they sell to other telephone companies apart from ours?

Mr. LACHANCE: On the other hand it happens to be the Bell Telephone Company who decide on prices.

Mr. VINCENT: No, the others can buy elsewhere. Moreover, there are a number of telephone companies who do not buy from Northern Electric, they buy from Automatic or Erickson. If some people buy from the Bell Telephone Company it is because they consider it to their advantage to do so.

Mr. LACHANCE: You say there used to be two telephone companies, but there cannot be two telephone companies.

Mr. VINCENT: No, there cannot be two telephone companies. There may have been two but it does not make sense.

(Text)

Mr. MACEWAN: What are the associated subsidiary companies to Northern Electric, roughly?

Mr. VINCENT: The subsidiaries are: Dominion Sound Equipment. I think recently they formed a Caribbean company chiefly because they were trying to get the west into these markets. It was thought useful to start a little company down there. I think those are the only two subsidiaries.

Mr. MACEWAN: Does Bell have an interest in the New Brunswick Telephone and Telegraph Company?

Mr. VINCENT: Yes.

Mr. MACEWAN: What would it amount to?

Mr. VINCENT: It is about one third.

Mr. MACEWAN: Have you any interest in the Maritime Telephone and Telegraph Company?

Mr. VINCENT: Yes, but it is very small. I think it is less than 10 per cent or maybe 8 percent, in about that order.

Mr. MACEWAN: This would work to the advantage of those companies, would it not?

Mr. VINCENT: In the same way that we have direct service with the A. T. & T. The American company will not attempt to have a direct service with these other companies. They say we have it with you, and you supply it to the other companies if you wish.

Mr. MACEWAN: It gives them the advantage of these facilities. Do you have a director on the Bell board from the Atlantic area?

Mr. VINCENT: I should not say from the Bell board, but rather from the Bell company.

Mr. SCRIVENER: If your question is: Do we have a director from New Brunswick or Nova Scotia, the answer is no.

Mr. VINCENT: We have a Bell officer who is a director from the maritimes and New Brunswick.

Mr. SCRIVENER: There is no Atlantic or maritimes province director on our board.

Mr. STENSON: You told us that you had one director from the United States, and you have not any from the maritimes. Are the remainder of your directors all from Quebec and Ontario?

Mr. VINCENT: Yes, the remainder of our directors are all from our own territory.

Mr. STENSON: In what cities does Northern Electric operate?

Mr. VINCENT: You say Northern?

Mr. STENSON: Yes.

Mr. VINCENT: Northern Electric operates from coast to coast.

Mr. STENSON: Where are their plants which supply you?

Mr. VINCENT: They are all over the place, mostly I would say in Ontario and Quebec. But they have some small ones outside.

Mr. SCRIVENER: They are a distributing organization, selling as they do to a great many people in Canada; and they have distributing organizations across the country. However their manufacturing plants are all in Ontario and Quebec.

Mr. VINCENT: And they have their offices.

Mr. SCRIVENER: Distributing houses and that kind of thing, but no manufacturing outside of Ontario and Quebec.

Mr. STENSON: Do your directors meet in Ottawa or Montreal?

Mr. VINCENT: We meet at Montreal.

Mr. COWAN: I am an Ontario taxpayer and I have to pay 15 cents a gallon for the use of the roads and highways of Ontario. How much does Bell Telephone Company have to pay to municipalities and to the province for the use of the highways for the so-called right of way for their telephone poles?

Mr. VINCENT: We pay taxes just like everyone else who uses the highways.

Mr. COWAN: Trucking companies pay taxes, and they also have to pay a gallonage tax for the use of the roads and the use of the highways; yet you use the roads and highways free for your operations so far as the right of way for your poles is concerned.

Mr. VINCENT: Yes.

Mr. ROCK: And also in the municipalities.

Mr. VINCENT: Yes.

Mr. ROCK: There is a public utility law whereby the municipalities have to provide you with rights of way all through the province.

The CHAIRMAN: Order. Are there any other questions?

Mr. BALCER: In rural Quebec I understand that Bell Telephone does not pay taxes for the telephone poles. There is a special section in the municipal code, I think, which exempts them from paying municipal taxes. Is that not a fact?

Mr. VENNE: If I might answer that question, it depends on the wording of the municipal code under the cities and towns. We are covered and they can tax the poles and equipment. But under the municipal code in view of the definition of the word "immovable" they cannot tax us. There have been representations made to Quebec many times about that very question. At one time, about 20 years ago, I think, provisions were made, when a small telephone company said to the government that they could not pay it. Nothing was done about it. Mind you, this company of ours—we pay taxes, but we face that situation now from the fact that the wording of the definition is not conclusive and we are exempt.

Mr. HOWE (*Wellington-Huron*): I understand that Bell has been doing a progressive job in putting a lot of its lines in rural areas under ground. Is it a progressive program, and if so, how much of it has been done at the present time?

Mr. SCRIVENER: This question came up from another quarter, from a gentleman to your left. In the terms you mentioned, speaking rurally, in this case the company would bury its poles. When we have our wires in residential areas, our first choice is to bury them. In rural territory we bury them if the economics are advantageous as opposed to pole construction. For example, if you operate a line near Sudbury for a telephone service, you will find that burying is a very costly business. But if you are working through farmland, then burying is economic. We would prefer to bury, because basically our plant is safer when it is buried. About the only danger is when someone puts something in the ground and knocks it out. This does happen, but when buried we are not subject to storm damage and that sort of thing.

Mr. HOWE (*Wellington-Huron*): Your maintenance would not be nearly as great if your lines were buried. But suppose a farmer should run across your line and break it. Who is responsible? Would you charge him for it?

Mr. SCRIVENER: That is a hazard of our business. When a contractor digs into our line, it is regarded as a hazard of our business. That is part of the price of admission, so to speak.

Mr. HOWE (*Wellington-Huron*): Thank you.

Mr. COWAN: Returning to the question of the poles on the highway, suppose a man is driving carefully along the road, and his car is forced to a sudden stop by reason of a carelessly driven vehicle approaching him. Suppose that man is thrown out of his car against a telephone pole and is killed. His family has no right to claim against the telephone company for that man's death.

Mr. SCRIVENER: If our pole were improperly placed there would be such a right. But if our pole is properly and legally placed, then there is no such right.

Mr. COWAN: Suppose it is legally placed on a public highway.

Mr. SCRIVENER: The legal agreement would provide that we were where we were permitted to place our plant.

Mr. COWAN: On a public roadway?

Mr. VINCENT: It would have to be approved by the province or the municipality. We have to get permission.

Mr. SCRIVENER: If that pole were not properly placed, we would incur the liability of anyone who does something improper.

Mr. COWAN: Who would decide the question?

Mr. SCRIVENER: Whoever has jurisdiction over that right of way.

The CHAIRMAN: Are there any other questions? Shall clause 1 carry?

Mr. BALZER: Would one of these directors be a representative of labour?

Mr. VINCENT: Where?

Mr. BALCER: With the new five additional directors do you intend to name a representative of labour on your board?

Mr. VINCENT: No, that is not the intention.

Mr. ROCK: He would cease to be labour, then.

The CHAIRMAN: Shall clause 1 carry?

Clause 1 agreed to.

Shall the preamble carry?

The preamble was agreed to.

Shall the title carry?

(Translation)

Mr. BEAULÉ: Mr. Chairman, not too fast. I have an amendment to bring to clause 8, third line, concerning this: after the word "at least"... change this by 19. This in view of avoiding conflicts in administration.

Mr. LACHANCE: Would you not prefer 21?

Mr. VINCENT: I would prefer to keep 20.

(Text)

I would rather stay with twenty.

Mr. ROCK: If you fellows want to come down here and ask for, let us say, twenty five, and have all these questions asked over again, you might just as well make it twenty five now.

The CHAIRMAN: Order. Mr. Beaulé has moved—is there a seconder? Oh yes, seconded by Mr. Balcer—that clause 1, be amended to read, in the second line "by a board of not less than five nor more than twenty one directors".

(Translation)

In French, on the second line of clause 1: a board of directors composed of at least 5 members and of 21 members at the most.

(Text)

What is the wish of the committee?

Mr. ROCK: May we discuss this?

The CHAIRMAN: Yes.

Mr. ROCK: They are asking for twenty. I do not see why we should force twenty-one on them. For what reason would we do this?

(Translation)

Mr. BEAULÉ: Not yet. When the Board of directors meet and a matter has to be voted on, and the Board is made up of 20 members, in that case who is to preponderate in the vote?

Mr. ROCK: You said out of 10—

(Text)

If we make an amendment to the bill, would it then have to go back to the Senate?

The CHAIRMAN: Mr. Beaulé wishes to withdraw his amendment. Do you agree, Mr. Beaulé?

(Translation)

Mr. BEAULÉ: The president is one of the directors.

Mr. VENNE: Except that under the Companies Act the person presiding has an additional right when there is an equal number of voters. I do not believe that 21 can change the situation.

Mr. BEAULÉ: I think in all companies the number of directors is uneven.

The CHAIRMAN: Mr. Beaulé—

Mr. BALCER: It is because we have confidence in the future of the Bell Telephone Company and we know they do so much business—

Mr. BEAULÉ: If the president's vote is preponderant, the amendment is dismissed.

The CHAIRMAN: Under the Companies Act, I have not wanted to interfere up to now, I have not wanted to interfere in the discussion, but I had to mention that.

(Text)

Shall the title carry?

Carried.

The CHAIRMAN: Shall the bill carry?

Carried.

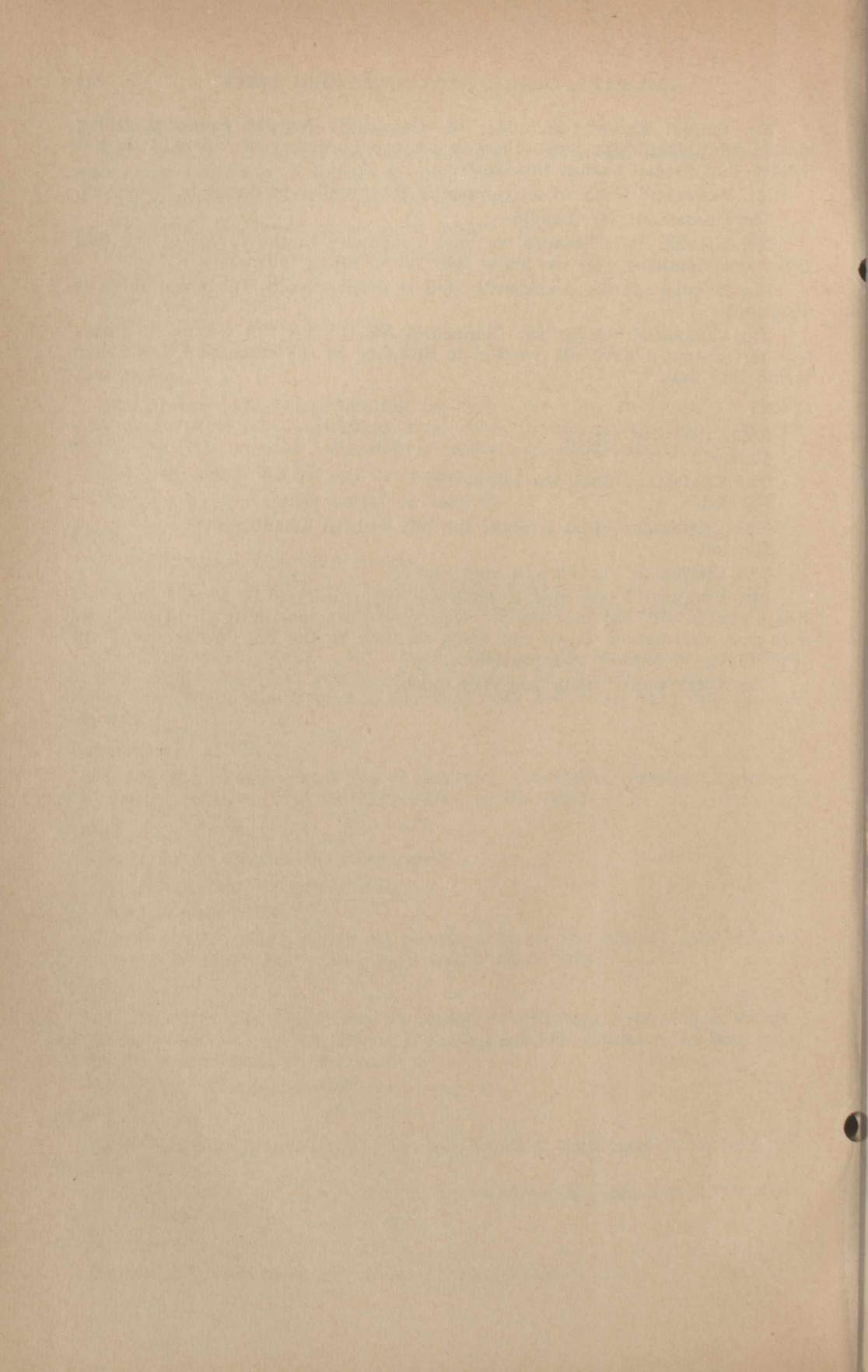
The CHAIRMAN: Shall I report the bill without amendment?

Carried.

The CHAIRMAN: Thank you very much.

Mr. VINCENT: I was glad to have the opportunity to be here. I knew we had a simple bill, but personally I welcomed the opportunity to be here and give you information. I was not going to stick to the bill. We welcome the opportunity to answer your questions.

The CHAIRMAN: Thank you very much.



HOUSE OF COMMONS

Second Session—Twenty-sixth Parliament

1964

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STANDING COMMITTEE

ON

**RAILWAYS, CANALS AND  
TELEGRAPH LINES**

*Chairman:* JEAN T. RICHARD, ESQ.

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

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TUESDAY, SEPTEMBER 1, 1964.

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Respecting

Bill S-39—An Act to incorporate Meota Pipe Lines Ltd.

WITNESSES:

Honourable R. A. Bell, Q.C., Parliamentary Agent, and Messrs. A. John  
Cressey and Stanley Reesor Kaufman.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1964

STANDING COMMITTEE  
ON  
RAILWAYS, CANALS and TELEGRAPH LINES

*Chairman:* Jean T. Richard, Esq.  
and Messrs.

Addison	Godin	Matte
Armstrong	Granger	McBain
Balcer	Grégoire	McNulty
Basford	Guay	Mitchell
Beaulé	Hahn	Millar
Béchar	Howe ( <i>Wellington-</i>	Muir ( <i>Lisgar</i> )
Berger	<i>Huron</i> )	Olson
Boulanger	Irvine	Nugent
Cadieu	Kennedy	Orlikow
Cameron ( <i>Nanaimo-</i>	<sup>2</sup> Kindt	Pascoe
<i>Cowichan-The</i>	Korchinski	Prittie
<i>Islands</i> )	Lachance	Pugh
Cantelon	Lamb	Rapp
Cantin	Laniel	Regan
Cooper	Latulippe	Rhéaume
Cowan	Lloyd	Rock
Crossman	Lessard ( <i>Saint-Henri</i> )	Ryan
Crouse	Macdonald	Southam
<sup>1</sup> Émard	MacEwan	Stenson
Fisher	Mackasey	Tucker—(60)
Foy	Marcoux	

(Quorum 12)

Maxime Guitard,  
*Clerk of the Committee.*

<sup>1</sup> Mr. Leblanc replaced Mr. Émard, on July 13, 1964.

<sup>2</sup> Mr. Horner (Acadia) replaced Mr. Kindt, on August 31, 1964.

*Corrigendum*

Issue No. 4, page 431, line 7 should read: C.N.R. has the only service available...

## ORDERS OF REFERENCE

MONDAY, July 13, 1964

*Ordered*,—That the name of Mr. Leblanc be substituted for that of Mr. Énard on the Standing Committee on Railways, Canals and Telegraph Lines.

THURSDAY, August 20, 1964

*Ordered*,—That Bill S-39 An Act to incorporate Meota Pipe Lines Ltd. be referred to the Standing Committee on Railways, Canals and Telegraph Lines.

MONDAY, August 31, 1964

*Ordered*,—That the name of Mr. Horner (*Acadia*) be substituted for that of Mr. Kindt on the Standing Committee on Railways, Canals and Telegraph Lines.

Attest.

LÉON-J. RAYMOND  
*The Clerk of the House.*

## REPORTS TO HOUSE

SEPTEMBER 1, 1964

The Standing Committee on Railways, Canals and Telegraph Lines has the honour to present the following as its

### THIRD REPORT

Your Committee has considered Bill S-39, An Act respecting Meota Pipe Lines Ltd., and has agreed to report it without amendment.

Respectfully submitted,

SEPTEMBER 1, 1964

The Standing Committee on Railways, Canals and Telegraph Lines has the honour to present the following as its

### FOURTH REPORT

Your Committee reported this day Bill S-39, An Act to incorporate Meota Pipe Lines Ltd., as its Third Report.

Clause 3 of the said Bill provides for Capital Stock of four million shares without nominal or par value.

Your Committee recommends that, for the purpose of levying the charges provided for under Standing Order 94(3), the proposed Capital Stock consisting of four million common shares without nominal or par value, be deemed to be worth four million dollars (\$4,000,000.00).

Respectfully submitted,

Concurred in on September 1, 1964.

SEPTEMBER 8, 1964.

The Standing Committee on Railways, Canals and Telegraph Lines has the honour to present the following as its

## FIFTH REPORT

A copy of the Minutes of Proceedings and Evidence relating to Bill S-39, An Act to incorporate Meota Pipe Lines Ltd., (Issue No. 5) is appended.

Respectfully submitted,

JEAN-T. RICHARD,  
*Chairman.*

## MINUTES OF PROCEEDINGS

TUESDAY, September 1, 1964

(14)

The Standing Committee on Railways, Canals and Telegraph Lines met at 10:38 o'clock a.m. this day. The Chairman, Mr. Jean-T. Richard, presided.

*Members present:* Messrs. Armstrong, Beaulé, Béchard, Cantelon, Cantin, Cowan, Crossman, Granger, Horner (*Acadia*), Howe (*Wellington-Huron*), Leblanc, MacEwan, McBain, McNulty, Nugent, Rapp, Richard and Southam—18.

*In attendance:* Hon. R. A. Bell Q.C., Registered Parliamentary Agent, Messrs. A. John Cressey, Solicitor, and R. Kaufman, President of Meota Pipe Lines Ltd.

The Committee considered Bill S-39, An Act to incorporate Meota Pipe Lines Ltd.

*On the Preamble:* The Chairman invited the Sponsor, Mr. Terry Nugent, M.P., to introduce the Parliamentary Agent, Hon. R. A. Bell, Q.C.

In turn, Hon. R. A. Bell, Q.C., introduced Messrs. A. John Cressey and R. Kaufman.

The Preamble, Clauses 1 and 2 were carried.

*On Clause 3:* The Clerk of the Committee read a solemn declaration dated May 7, 1964, filed with the Chief Clerk of Committees, respecting the nominal or par value of shares.

CANADA

PROVINCE OF ALBERTA

TO WIT

IN THE MATTER OF THE PROPOSED  
APPLICATION FOR INCORPORATION  
OF MEOTA PIPE LINES LTD.

I, STANLEY REESOR KAUFMAN, of the City of Edmonton, in the Province of Alberta, do solemnly declare:

1. That I am one of the proposed Directors and proposed initial shareholder of the proposed corporation.

2. That the proposed capital stock of the Company will be Four Million Dollars (\$4,000,000) and for purposes of capitalization the Four Million (4,000,000) no par value share will be valued at the rate of One Dollar (\$1.00) per share.

AND I make this solemn declaration conscientiously believing it to be true and knowing that it is of the same force and effect as if made under oath and by virtue of the Alberta Evidence Act.

DECLARED before me at the

City of Edmonton, in the

Province of Alberta,

this 7 day of

May, A.D. 1964

S. R. Kaufman

A. J. Cressey  
A Notary Public In and  
for the Province of  
Alberta.

Then, on motion of Mr. Horner (*Acadia*), seconded by Mr. Southam,  
*Resolved*,—That, for the purpose of levying the charges provided by  
Standing Order 94(3), the Committee recommends that the proposed capital  
stock consisting of four million shares without nominal or par value, be  
deemed to be worth four million dollars (\$4,000,000.00).

Clauses 3 to 11 inclusive, the Title and the Bill were severally carried and  
the Chairman instructed to report the Bill without amendment.

The Committee requested that both the map showing the all Canadian  
route of Meota Pipe Lines Ltd. as Exhibit No. 1 and the By-Laws already  
filed with the Committees and Private Legislation Branch, as Exhibit No. 2,  
be published as appendices to this day's Minutes of Proceedings and Evidence.

At 10.53 o'clock a.m. the Committee adjourned to the call of the Chair.

Maxime Guitard,  
*Clerk of the Committee.*

## EVIDENCE

TUESDAY, September 1, 1964

The CHAIRMAN: Gentlemen, we have a quorum.

This morning we are examining a bill to incorporate Meota Pipe Lines Ltd.

I shall call the preamble, and then I will ask the sponsor of Bill No. S-39, Mr. Nugent, member of parliament, to introduce the parliamentary agent, the Hon. R. A. Bell, Q.C.

On the preamble.

Mr. NUGENT: Mr. Chairman, and gentlemen, I know you will be very happy to learn that I do not intend to make a speech, and I do not think that Mr. Bell really intends to make a long speech.

I am sure all members of the committee know who Mr. Dick Bell, Q.C., is. He is a former minister in the last government.

Mr. Bell will introduce the other witnesses who are appearing before you this morning.

I hope it will not be necessary for me to take any part in the proceedings. But, of course, if anyone has any pertinent, or even impertinent questions, I would only be too happy to answer them.

Would you proceed, Mr. Bell.

Hon. R. A. BELL, Q.C. (*Parliamentary Agent*): Mr. Chairman and gentlemen, from experience I belong to that school which believes that parliamentary agents should be seen and not heard. I have only two or three brief statements to make.

I think the bill is in the standard form, which has become traditional since the enactment of the national energy board. Under that act, as the committee is aware, only a company can construct or operate a pipe line. A company is defined in the bill as one which has been incorporated by special act of parliament.

This particular pipe line is not in any sense a promotional venture; it is being set up as a vehicle to meet an existing need, particularly for service in southwestern Manitoba.

As the committee is aware, the incorporation by special act is only the first step. The procedure thereafter is to acquire a certificate of public convenience and necessity from the national energy board.

As you realize, this line will be crossing the Saskatchewan-Manitoba border. The distance of the contemplated total line is 42 miles.

Present this morning to assist the committee in their deliberations is Mr. S. R. Kaufman. If parliament incorporates this pipe line company it is proposed that Mr. Kaufman shall be the president of the company.

With Mr. Kaufman this morning is Mr. A. Jack Cressey, who is the solicitor for the applicant. Mr. Cressey would like to assist the committee very briefly in respect of two or three matters.

Mr. A. J. CRESSEY (*Solicitor for the Applicant*): Mr. Chairman and gentlemen, the incorporators are seeking a charter from the federal government to construct interprovincial pipe lines for transmitting natural gas to the southwestern corner of Manitoba from southeastern Saskatchewan.

Basically, the mechanics of this are that they are required to receive a special act, in order to acquire the status of a company or a legal entity. Then they have to appear before the national energy board and this board will decide on the structural and economic details of the line. Then the public utilities commission of the province of Manitoba, where the gas is to be distributed, will have to establish the gas rate and the terms and conditions under which the gas will be delivered to the consumers.

The incorporators are all engaged in management and engineering capacities with a group of associated gas and electric companies in Canada which operate on a nationwide basis.

The president of Meota Pipe Lines Ltd., should it get its charter, will be Stanley Reesor Kaufman, who is vice president and general manager of Great Northern Gas Utilities (Operations) Ltd., Plains Western Gas & Electric Co. Ltd., Plains Western Gas (Manitoba) Ltd., Great Northern Gas Co. Ltd., North Shore Propane Co. Ltd., and vice president and treasurer of Rockgas Propane Ltd.

This group of companies are distributing propane in 106 communities in Manitoba and natural gas in 22 communities. At present they are distributing natural gas in Fort St. John, British Columbia, Athabaska, St. Paul, Leduc, Calmar, Westlock, Morinville, Stettler, Hanna, Drumheller, Pincher Creek, Three Hills and Two Hills, all in Alberta. In Manitoba they are distributing in Brandon, Carberry, Morden, Winkler, Altona, Plumb Coulee, and at present they are in the process of installing natural gas in Carmen. They are also engaged in a propane-air distribution system at Sault Ste. Marie, Ontario.

The companies are looking to the distribution of fuel in other areas of Canada and in many instances, such as the contemplated natural gas service to southwestern Manitoba, they will require a permit to transmit gas across provincial boundaries.

The contemplated route of the pipe line, should Meota get its charter, will be from Alida in southeastern Saskatchewan across to Melita in southwestern Manitoba. The area is marked in red on the map. I am referring here to the Saskatchewan-Manitoba boundary. It is contemplated that future extensions would see it go on to serve the area farther east of Melita.

It would be a four inch pipe line. The gas is available from the system of the Saskatchewan Power Corporation in southeastern Saskatchewan.

As I mentioned, originally, the available market would be around Melita. There is no existing facility to supply natural gas in that area at the present time. The trans Canada pipe line is 61 miles north of the contemplated area.

The group of companies have within their own capacity the financial resources to construct the system.

Mr. RAPP: If I may interrupt, is this same company operating in Saskatchewan?

Mr. CRESSEY: No. All natural gas in Saskatchewan is distributed by the Saskatchewan Power Corporation.

Mr. RAPP: Then, have they a monopoly on it?

Mr. CRESSEY: Well, I do not care to comment on that. They certainly are serving all areas of Saskatchewan.

The CHAIRMAN: Mr. Cressey, have you finished your statement?

Mr. CRESSEY: Yes.

The CHAIRMAN: Are there any questions? If not, shall clause 1 carry?

Mr. MCBAIN: Mr. Chairman, I have one question.

Mr. Cressey, where do you receive your supply of natural gas?

Mr. CRESSEY: From the existing trunk line of Saskatchewan power corporation at Alida. The Saskatchewan Power Corporation has an existing grid throughout the province and they have gas available at Alida.

Mr. MCBAIN: And you are purchasing your supply from the Saskatchewan Power Corporation?

Mr. CRESSEY: Yes.

Clauses 1 and 2 agreed to.

On clause 3—*Capital stock*.

The CHAIRMAN: Since the nominal or par value of the shares was not included in the petition or in the body of the bill I would ask the clerk to read the solemn declaration made to that effect by one of the petitioners, Mr. Kaufman.

The CLERK OF THE COMMITTEE: reads a solemn declaration made by Mr. Stanley Reesor Kaufman before Mr. A. J. Cressey, a Notary Public in and for the Province of Alberta.

(See this day's Minutes of Proceedings.)

The CHAIRMAN: You will understand that the purpose of this amendment is to establish a value so that the clerk can make the proper charge on this bill. It does not amend clause 3 of the bill. Will someone make a motion to that effect.

Mr. HORNER (*Acadia*): For the purpose of setting the fee I move that the value of the shares be rated at \$1 per share.

Mr. SOUTHAM: I second the motion.

Motion agreed to.

Mr. LEBLANC: I understand that the \$1 rate is for tax purposes with regard to the issuance of the shares themselves, but is there any price set now on the market for those shares? In other words, what would be the market price of these shares?

Mr. CRESSEY: It is not contemplated at all that these shares would go on the market.

Mr. LEBLANC: It would be entirely a private affair?

Mr. CRESSEY: Yes.

Mr. LEBLANC: So, they would be bought at \$1?

Mr. CRESSEY: Yes.

Mr. LEBLANC: Therefore, there would not be anything in the nature of shares in escrow, or anything like that?

Mr. CRESSEY: No.

The CHAIRMAN: Any other questions on clause 3?

Shall clause 3 carry?

Clause agreed to.

On clause 4—*Head office and other offices*.

Mr. McNULTY: Under subparagraph (3) of clause 4 it is said:

No by-law for the said purpose shall be valid or acted upon until it is sanctioned by at least two-thirds of the votes cast at a special general meeting of the shareholders of the company—

Has any consideration been given to the time element involved in the calling of a meeting so that shareholders will receive proper notice?

Mr. CRESSEY: Yes, that is covered under the Dominion Companies Act.

Mr. BELL: One of the sections which is made applicable by section 7 does provide for notice.

The CHAIRMAN: Shall clause 4 carry?

Clause agreed to.

Clauses 5 to 11, inclusive, agreed to.

Title agreed to.

The CHAIRMAN: Shall I report the bill?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: That completes the business of the committee this morning. I want to thank Mr. Bell and Messrs. Cressey and Kaufman.

Mr. CANTIN: May I request the committee to have the charter together with the map included as an appendix?

Mr. LEBLANC: Yes, the charter together with the map, as well as the bylaws that are probably already made up.

Mr. NUGENT: The bylaws have to be filed with the Secretary of State afterwards.

Mr. CRESSEY: Gentlemen, I believe that the bylaws have already been prepared, but I believe that until the charter is granted and the bylaws are filed with the Secretary of State they cannot be accepted. The Secretary of State has to approve them. He will not do so until the charter is granted.

Mr. LEBLANC: What we want is to have the bylaws included as an appendix together with the map, even if there are to be changes afterwards.

Mr. NUGENT: May I suggest something? I am certain the company has no objection to this but I think, in fairness to the company, they would like to have it added—because the Secretary of State sometimes does insist on a change in bylaws of some kind or another—that the committee would accept them being filed as an appendix with that caveat.

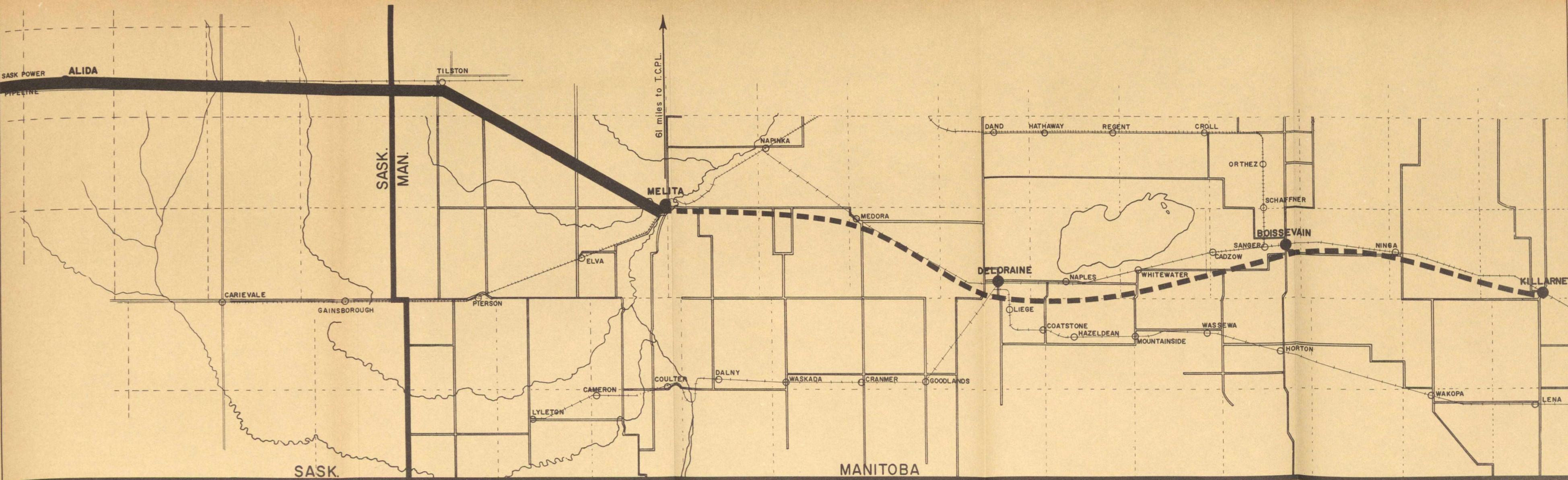
The CHAIRMAN: Is it the wish of the committee that the proposed bylaws and the proposed map of the route be filed as an appendix?

It is agreed.

That completes the business of the committee.

Mr. HORNER (*Acadia*): I move we adjourn.

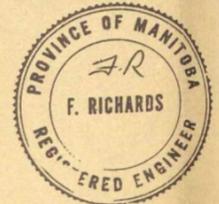
SASK POWER ALIDA PIPELINE



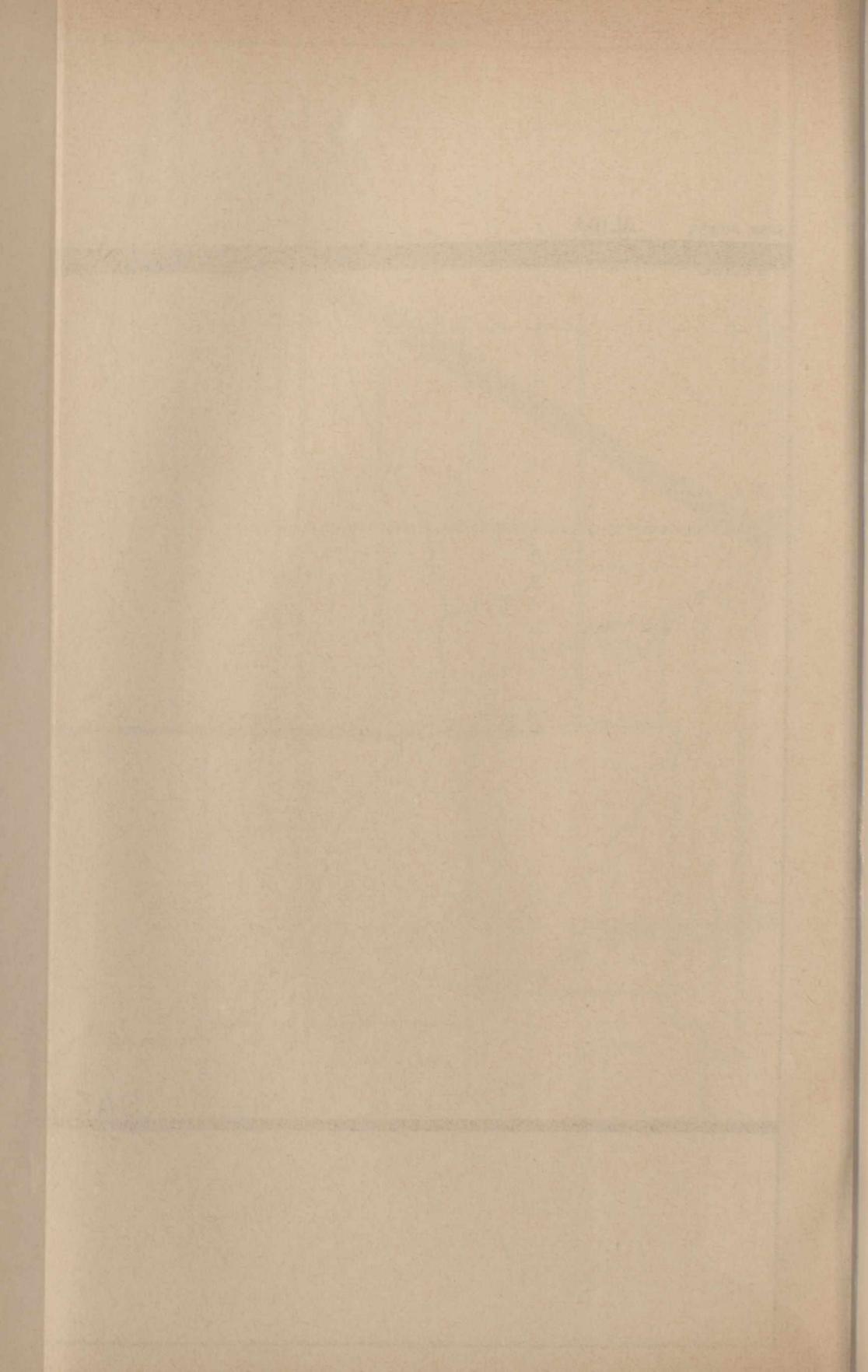
61 miles to T.C.P.L.

SASK. MAN.

MANITOBA UNITED STATES



MEOTA PIPE LINES LTD.	
PROPOSED TRANSMISSION LINE	
SCALE : 1" = 3 miles	DATE : JULY ' 64.



## BY-LAW NO. 1

BE IT ENACTED AND IT IS HEREBY ENACTED as a by-law of MEOTA PIPE LINES LTD.  
as follows:

## INTERPRETATION

1. In all by-laws of the Company, including this clause, unless the context or subject matter requires a different meaning:

“Annual Meeting” shall mean the annual general meeting of the shareholders of the Company required by the Statutes.

“Board” shall mean the board of directors of the Company.

“By-laws” shall mean this by-law and any by-law which may be enacted or passed amending, adding to or in substitution for such by-law, or any part thereof.

“Company” shall mean the above-named Company.

“Debenture” shall include “bond” and vice versa.

“Dividend” shall include bonus or any distribution to shareholders as such.

“General Meeting” shall mean a meeting of the shareholders.

“Month” shall mean calendar month.

“Office” and “Head Office” shall mean the head office of the Company, for the time being.

“Register” shall mean the register of shareholders to be kept as required by the statutes.

“Registrar” shall mean the Secretary or other officer or party for the time being in charge, or having custody and control, of the Register.

“Seal” shall mean the corporate seal of the Company or any official facsimile of the same.

“Secretary” and “Treasurer” shall include any person appointed temporarily or permanently to perform the respective duties of the Secretary and Treasurer, or holding such offices jointly.

“Special Act” or “Charter” shall mean the Act incorporating the Company.

“Special Meeting” shall mean any general meeting of the shareholders other than the annual meeting.

“Statutes” shall mean the Special Act and the Companies Act, Chapter 53 of the Revised Statutes of Canada, 1952, and every other Act or statute incorporated therewith or amending the same or any act or statute substituted therefor, and in the case of any such substitution, the reference in the by-laws to non-existing acts or statutes shall be read as referring to the substituted provisions in the new act or statute.

Words which have a special meaning assigned to them in the Statutes shall have the same meaning.

Words imparting the singular number only shall include the plural and the converse shall also apply.

Words imparting males shall include females.

Words imparting individuals shall include corporations.

2. The headings used throughout this by-law are inserted for reference purposes only, and are not to be considered or taken into account in construing the terms or provisions of any clause nor to be deemed in any way to qualify, modify or explain the effect of any such terms or provisions.

## OFFICES

3. The head office of the Company shall be situated at the City of Edmonton, in the province of Alberta, and at such place or address therein as the Board may from time to time by resolution fix and determine.

4. The Company may also have offices at such other places or addresses, whether in the province of Alberta or elsewhere, as the Board may by resolution fix and determine.

## SEAL

5. The seal, an impression whereof is stamped in the margin hereof shall be the seal of the Company.

## SHARES GENERALLY

6. The issuance of shares shall be under the control of the Board who may allot or otherwise dispose of the same at such times, in such manner and to such persons or classes of persons, as the Board may from time to time by resolution fix and determine.

## TRUSTS

7. The Company shall not be bound to see to the execution of any trust, whether express, implied or constructive, in respect of any share and the receipt of any shareholder in whose name a share stands on the books of the Company shall be a valid and binding discharge to the Company for any dividend or money payable in respect of such share, whether notice of such trust has been given to the Company or not, and the Company shall not be bound to see to the application of the money paid on such receipt.

## SHARE CERTIFICATES

8. Share certificates shall be in such form as the Board may from time to time by resolution approve.

9. Every shareholder shall be entitled, without payment, to a certificate specifying the number of shares held by him and the amount paid up thereon. If any shareholder shall require certificates in addition to one certificate, he shall pay for each additional certificate such sum as the Board may determine.

10. If any certificate be worn out, lost, stolen, defaced or destroyed, it may be renewed upon the person requiring a new certificate surrendering the worn out certificate, or giving such evidence of the loss, theft, defacement or destruction and such bond of indemnity to the Company as the Board may require.

11. Share certificates, interim and definitive:

- (a) need not be under or bear the seal of the Company.
- (b) shall be signed by the President, a Vice-President or a director and by the Secretary or an Assistant Secretary, if any, holding office at the time of signing.
- (c) so signed shall be valid and binding on the Company notwithstanding:
  - (i) any change in the persons holding said offices between the time of actual signing and the issuance of the certificate, and
  - (ii) that the President or Vice-President or such director or Secretary or Assistant Secretary may not have held office at the date of the issuance of the certificate.

12. The signature of the President, Vice-President, director and of the Secretary or Assistant Secretary may be printed, engraved or otherwise mechanically reproduced on the share certificates and such printed, engraved or

otherwise mechanically reproduced signature shall for all purposes be deemed to be the signature of the President, of such Vice-President, of such director and of such Secretary or Assistant Secretary.

13. A certificate for shares shall be prima facie evidence of the title of the shareholder to the shares therein designated.

14. Where the capital stock of the Company consists of more than one class of shares, a statement of the rights and conditions, limitations or restrictions, whether created by the letters patent or supplementary letters patent or by by-law, shall be set out in, or endorsed on, the certificate for shares issued for each class.

15. In respect of a share or shares held jointly by several persons, the Company shall not be bound to issue more than one certificate and the delivery of the certificate to one of several joint holders shall be sufficient delivery to all.

#### JOINT HOLDERS OF SHARES

16. Where two or more persons are registered as holders of any shares of the Company:

- (a) they shall be deemed to hold the same jointly and shall be liable severally as well as jointly in respect of all payments required to be made in respect of such share.
- (b) any one of such joint holders may give effectual receipts for any dividend or return of capital payable to such joint holders.
- (c) only the person whose name stands first in the register of shareholders, as one of such joint holders, shall be entitled to receive notices from the Company and any such notice given to such person shall be deemed notice to all the joint holders.
- (d) any one of such persons may vote at any meeting, either personally or by proxy, in respect of such shares as if he were solely entitled thereto.
- (e) if more than one of such joint holders be present at any meeting personally or by proxy that one of the said persons so present whose name stands first in the books of the Company or before the other or others in the books of the Company in respect of such share shall alone be entitled to vote in respect thereof, and
- (f) as executors or administrators of a deceased shareholder, they shall, for the purposes of sub clauses (c), (d) and (e) hereof, be deemed joint holders thereof.

#### CALLS AND INSTALLMENTS ON SHARES

17. The Board may by resolution from time to time make such calls as it deems fit upon the shareholders in respect of all moneys unpaid on the shares held by them respectively, and not by the conditions of allotment thereof made payable at fixed times, and each shareholder shall pay the amount of every call so made on him to the persons and at the times and places appointed by the Board.

18. A call:

- (a) may be made payable by installments,
- (b) shall be deemed to have been made at the time when the resolution of the Board authorizing such call was passed.

19. Ten (10) days' notice, at least, of any call shall be given specifying the time and place of payment, and to whom such call shall be paid. Before the time for payment the Board may, by notice in writing to the shareholders, revoke the call or extend the time for payment thereof.

20. If the sum payable in respect of any call or installment be not paid on or before the day appointed for payment thereof, the holder for the time being of the shares in respect of which the call shall have been made, or the installment shall be due, shall be liable to pay interest on such call at the rate of six per centum (6%) per annum from the day appointed for the payment thereof to the time of the actual payment.

21. If by the terms of the issue of any shares or otherwise any amount is made payable at any fixed time or by installments at any fixed time, such amount or installment shall be payable, as if it was a call duly made by the Board, of which due notice has been given; and all provisions hereof with respect to the payment of calls and interest thereon, or to the forfeiture of shares for non-payment of calls, shall apply to such amounts or installments and the shares in respect of which they are payable.

22. The Board may, in its discretion, receive from any shareholder willing to advance the same, all or any part of the moneys due upon the shares held by him, beyond the sums actually called for, and upon the moneys so paid or satisfied in advance, or so much thereof as from time to time exceeds the amount of the calls then made upon the shares in respect of which such advances have been made, the Company may pay interest at such rate not exceeding six per centum (6%) per annum as the shareholder paying such sum in advance and the Company agree upon. No amount paid on a share in advance of calls shall be treated as paid on any share.

23. No shareholder shall be entitled to receive any dividend or to participate in any distribution whether of capital or otherwise while any calls together with interest and expenses, if any, for the time being due and payable on every share held by him, whether alone or jointly with any other person, remain unpaid.

#### FORFEITURE OF SHARES

24. If any shareholder fails to pay any call or installment on the day appointed for payment thereof, the Board may at any time thereafter, during such time as the call or installment remains unpaid, serve a notice on him demanding that he pay such call or installment, together with interest accrued and any expenses incurred by reason of such non-payment.

25. The notice shall name a further date on or before which such call or installment, and all interest accrued and expenses incurred by reason of such non-payment are to be paid, and it shall also name the place where payment is to be made. The notice shall also state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or installment is due will be liable to forfeiture.

26. If the requisitions of any such notice, as aforesaid, be not complied with, any shares in respect of which such notice has been given may, at any time thereafter before payment of all calls or installments, interest and expenses due in respect thereof have been made, be declared forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends declared in respect of the forfeited shares and not actually paid before the forfeiture.

27. Any shares so forfeited shall thereupon become the property of the Company, and it may sell, re-allot or otherwise dispose of the same in such manner as the Board may think fit. At any time before a sale or disposition of the shares the forfeiture may be cancelled on such terms as the Board may see fit.

28. Any shareholder whose shares have been forfeited shall, notwithstanding such forfeiture, continue to be liable to pay to the Company and to its creditors all calls and installments, interest and expenses owing upon such

shares at the time of forfeiture, together with interest thereon from the time of forfeiture at a rate not exceeding six per centum (6%) per annum, less any sums which may have been subsequently received by the Company in respect thereof.

29. The forfeiture of a share shall involve the extinction at the time of forfeiture of all interests in and claims and demands against the Company in respect of the share and all other rights and liabilities incidental to the share, as between the shareholder whose share is forfeited and the Company, except only such of those rights and liabilities as are by these by-laws or by the statutes expressly saved.

30. A statutory declaration in writing that the declarant is a director of the Company and that a share has been duly forfeited in pursuance of this by-law and stating the time when it was forfeited, shall, as against all persons claiming to be entitled to the share adversely to the forfeiture thereof, be conclusive of the facts therein stated, and such declaration together with a certificate of proprietorship of the share, delivered to a purchaser or allottee thereof, shall constitute a good title to the share, and the then holder thereof shall not be bound to see to the application of the purchase money, nor shall his title to the share be affected by any fact, omission or irregularity relating to, or connected with the proceedings in reference to the forfeiture, sale, reallocation or disposal of the share.

31. When any shares have been forfeited, an entry shall forthwith be made in the register and other books of the Company relative thereto recording the forfeiture and the date thereof and as soon as the shares so forfeited have been disposed of, an entry shall also be made of the manner and date of the disposal thereof.

32. Notwithstanding anything hereinbefore contained, the Board may if deemed fit, instead of forfeiting any share or shares, enforce payment of all calls and installments, interest and expenses thereon by action in any court of competent jurisdiction.

#### TRANSFER AND TRANSMISSION OF SHARES

33. Shares may be transferred in any recognized form of transfer which form of transfer may be endorsed on the certificate for shares, but no transfer of shares whereof the whole amount has not been paid, shall be recorded in the register or any branch register of the Company, and in any case, and subject to and saving and excepting as in the statutes provided, the transferer shall be deemed to remain the holder of such shares until the name of the transferee is entered in the register in respect thereof.

34. Every certificate for shares which are to be transferred, together with such other evidence as the Company may require to prove the title of the transferor or his right to transfer the shares, shall for the purposes of registration be left at the office of the registrar or the transfer agent of the Company, and subject to the provisions of the Statutes, no transfer of shares shall be valid until entry thereof has been made in the register of transfers or branch register of transfers.

35. All certificates the shares in respect of which are transferred and all instruments of transfer shall be retained by the Company, but any certificate and instrument of transfer of the shares represented therein which the Board may decline to transfer shall on demand be returned to the person depositing the same.

36. All transfers of shares shall be signed by the transferor or his duly approved attorney or his duly authorized representatives or by the executors, administrators or representatives of a deceased shareholder.

37. All transmissions of shares shall be carried into effect and be dealt with in accordance with the Statutes.

38. The guardians of an infant shareholder and the administrator or administrators of a lunatic shareholder may, upon producing to the Board evidence of their position as may be required by the Board, be placed upon the register in respect of the shares held by such infant or lunatic shareholder, as the case may be.

#### REGISTER OF TRANSFERS KEEPING AND CLOSING THEREOF

39. (a) A register of transfers shall be kept in Canada in such form as the Board may approve, in which shall be recorded particulars of every transfer of shares in the capital stock of the Company entered on such register.
- (b) One or more branch registers of transfers may be kept at such place or places within Canada or elsewhere as may from time to time be appointed by resolution of the Board.
- (c) A book shall be kept at the place within Canada where the register of transfers is kept, in which shall be recorded a copy of particulars of every transfer entered on every branch register of transfers.
- (d) The Board may appoint one or more persons, companies or banks as the transfer agent or agents and/or registrar or registrars for shares in the capital stock of the Company.
- (e) Entry of the transfer of any share in the register or a branch register, whether kept at the head office of the Company or elsewhere, shall for all purposes constitute a complete and valid transfer.
- (f) In each branch register shall be recorded particulars of every transfer of shares in the capital of the Company entered in such branch register.
- (g) The Board may close the register and the branch register or registers (if any) at any time or times preceding the date of any meeting of the shareholders or the date of payment of any dividend or the date for the allotment of rights or the date when any change or conversion or exchange of shares shall go into effect, on giving notice by advertisement in some newspaper published in the place within Canada where the register is kept and in some newspaper or newspapers published in the place or respective places where the branch register or branch registers are kept provided that such register or registers may not be so closed in the whole more than thirty (30) days in any one year.
- (h) The Board may fix in advance a date, not exceeding thirty (30) days preceding the date of any meeting of shareholders or the date for the payment of any dividend, or the date for the allotment of rights or the date when any change or conversion or exchange of shares shall go into effect, as the record date for the determination of the shareholders entitled to notice of, and to vote at, any such meeting, or entitled to receive payment of any such dividend, or to any such allotment of rights, or to exercise the rights in respect of any such change, conversion or exchange of shares, and in such case only such shareholders as shall be shareholders of record on the date so fixed shall be entitled to such notice of, and to vote at, such meeting, or to receive payment of such dividend, or to receive such allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the Company after any such record date fixed as aforesaid.

## BORROWING

40. (1) The Board may, and it is hereby authorized from time to time to:
- (a) borrow money upon the credit of the Company.
  - (b) limit or increase the amount to be borrowed.
  - (c) issue bonds, debentures, debenture stock or other securities of the Company.
  - (d) pledge or sell such bonds, debentures, debenture stock or other securities for such sums and at such prices as may be deemed expedient.
  - (e) mortgage, hypothecate, charge or pledge all or any of the real and personal property, undertaking and rights of the Company, to secure any such bonds, debentures, debenture stock or other securities, or any money borrowed or any other liability of the Company.

(2) The Board may, from time to time by resolution, delegate to the President and Secretary or to any two officers of the Company, including the President or Secretary, all or any of the powers conferred on the Board by sub clause (1) to the full extent thereof or such lesser extent as the Board may in any such resolution provide.

(3) The powers hereby conferred shall be deemed to be in supplement of, and not in substitution for, any powers to borrow money for the purpose of the Company possessed by its Board or officers independently of a borrowing by-law.

## SHAREHOLDERS' MEETINGS

## Annual Meeting

41. Annual meetings shall be held once in each calendar year and not more than fifteen (15) months after the holding of the last preceding annual meeting and either at the head office or elsewhere in Canada on such day of each calendar year as the Board may by resolution determine.

42. (1) The business of the annual meeting shall be:

- (a) to receive and consider:
- i. the reports of the Board, if any.
  - ii. the auditors' reports.
  - iii. the Company's balance sheet and financial statement and
  - iv. any other information respecting the Company's position as required by the Statutes.
  - v. the election of the Board.
  - vi. to appoint an auditor or auditors; and
  - vii. to consider and, if deemed advisable, to confirm any enactment, repeal, amendment or re-enactment by the Board of the Company's by-laws which, under the provisions of the Statutes, would cease to be effective in default of confirmation by the meeting.

(2) The members of the Board elected, and auditors appointed, as provided in sub-clause (1), shall be entitled to hold such office or appointment until the next annual meeting or until their successors are elected or appointed.

## Special Meetings

## 43. (1) The Board:

- (a) may whenever it thinks fit, and
- (b) shall, upon the requisition of the holders (at the date of the deposit of the requisition) of one-tenth of the issued shares of the Company of the class or classes that, at the said date, carry the right of voting at the meeting to be called, forthwith

proceed to call a special meeting.

## (2) Any special meeting called in pursuance of a requisition shall:

- (a) be convened and held in accordance with the provisions of the Statutes, and
- (b) unless the same shall have been called by the Board transact no business other than that stated in the requisition as the objects of the meeting.

## Notice

44. At least seven (7) days (exclusive of the day of sending or personal service, as the case may be, but inclusive of the day for which notice is given) before the date of every meeting a written, printed or otherwise mechanically reproduced notice stating

- (a) the day, hour and place of the meeting, and
- (b) the general nature of the business to be transacted,

shall be given to each shareholder entitled to such notice and to vote at such meeting, by the said notice being either

- (i) delivered personally or
- (ii) sent by mail or other means of written communication in a wrapper or envelope, charges prepaid, directed to such address as appears on the books of the Company or is given by the shareholder to the Company for the purpose of notice or, if no address be given, then to the last address of such shareholder known to the Secretary or, if no address be known, notice shall be deemed to have been given the shareholder if sent by mail or other means of written communication addressed to the place where the head office of the Company is situated;

provided always that a meeting of shareholders may be held for any purpose at any time (except as mentioned in clause 41 of this by-law) without notice

- (1) if all the shareholders entitled to notice of such meeting are present in person, or represented thereat by proxy, or if a quorum be present in person or represented as aforesaid, and
- (2) if either before or after the meeting, each of the shareholders entitled to vote, not present in person or by proxy, signs a written waiver of notice, or a consent to the holding of such meeting, or an approval of the minutes thereof.

45. Notice of any meeting or an irregularity in any meeting or in the notice thereof may be waived by any shareholder or the duly authorized proxy or representative of any shareholder.

46. No public advertisement or notice of shareholders' meetings, annual or special, shall be required.

47. The accidental omission to give notice of any meeting, or the non-receipt of any notice by any shareholders or shareholder, shall not invalidate any resolution passed or any proceedings taken at any meeting.

#### Quorum

48. Two persons personally present and entitled to vote thereat shall be a quorum of any general meeting for the choice of a chairman and the adjournment of the meeting.

49. For all other purposes a quorum of any general meeting (unless a greater number of shareholders and/or a greater number of shares are required by the statutes or by the Special Act or any other by-law of the Company to be present and/or represented) shall be persons personally present and entitled to vote thereat not being less than two in number and holding or representing by proxy not less than twenty-five (25%) per centum of the issued shares of the Company for the time being enjoying voting rights at such meeting.

50. No business shall be transacted at any general meeting unless the quorum requisite be present at the commencement of the business.

51. If fifteen (15) minutes after the time appointed for the holding of a general meeting a quorum be not present the meeting,

(a) if convened upon a requisition of shareholders, shall be dissolved, and

(b) in any other case, shall stand adjourned to the same day in the next week at the same time and place;

and, if at such adjourned meeting a quorum be not present, those shareholders who are present and entitled to vote thereat shall be deemed to be a quorum and may transact all business which a full quorum might have done. No notice of any such adjournment need be given to the shareholders.

#### Chairman

52. The President shall preside as chairman at every general meeting and in his absence a Vice-President and if neither of these be present, or if they be not present within fifteen (15) minutes after the time appointed for the holding of the meeting, the shareholders present or represented and entitled to vote thereat shall choose

(a) one of the Board, or

(b) if no member of the Board shall be present and willing to take the chair, one of their number

to be chairman.

#### Adjournment

53. The chairman may with the consent of any general meeting adjourn the same from time to time and place to place.

54. No notice of any such adjournment need be given to the shareholders.

55. Any business may be brought before or dealt with at any adjourned meeting which might have been brought before or dealt with at the original meeting in accordance with the notice calling the same.

## Votes

56. Votes at general meetings may be given personally or by proxy.
57. Every question submitted to any general meeting shall be decided by a majority of votes taken on a show of hands except
- (a) as may in special instances be required by the statutes or the by-laws, or
  - (b) when, before or upon the declaration of the result of the show of hands, a poll is demanded by at least two shareholders present either personally or by proxy and entitled to vote.
58. In the case of an equality of votes at any general meeting, whether upon a show of hands or at a poll, the chairman shall be entitled to a second or casting vote.
59. A declaration by the chairman that a resolution has, either on a show of hands or on a poll, been carried or carried by a particular majority or lost or not carried by a particular majority shall be conclusive and an entry to that effect in the books of proceedings of the Company shall be conclusive evidence thereof, and proof of the number or proportion of the votes recorded in favour of or against such resolution shall not be necessary.
60. In case of any dispute as to the admission or rejection of any vote, either on a show of hands or on a poll, the chairman shall determine the same and such determination made in good faith shall be final and conclusive.
61. If a poll be demanded
- (a) in respect to the appointment of a chairman or on the question of adjournment, it shall be taken forthwith without adjournment,
  - (b) on any other question, it shall be taken in such manner and either at once or after adjournment at such time and place as the chairman may direct,
  - (c) any business other than that upon which a poll has been demanded may be proceeded with pending the taking of the poll,
  - (d) such demand may be withdrawn,
  - (e) the result of the poll shall be deemed to be the resolution of the meeting at which the demand was made.
62. Subject to any restrictions imposed on any particular shares, whether created by the Special Act or by-laws, at every general meeting:
- (a) upon a show of hands every shareholder present in person and entitled to vote shall, save as to the casting vote of the chairman, have one vote only.
  - (b) upon a poll every shareholder present in person or by proxy and entitled to vote shall, save as to the casting vote of the chairman, have one vote for every share held by him.
  - (c) where a corporation being a shareholder is present by proxy or by a person duly appointed who is not a shareholder, such proxy or person shall in addition to voting on a show of hands be entitled to vote for such corporation on a poll.
  - (d) shares registered in the name of two or more persons may be represented and voted as provided in clause 16 of this by-law.

- (e) if any shareholder entitled to vote be a mental incompetent he may vote by his legal representative who may give such vote either personally or by proxy.

63. No shareholder shall be entitled to be present or to vote on any question either personally or by proxy, or as proxy for another shareholder, at any general meeting, or upon a poll, or to be reckoned as a quorum whilst any call shall be due and payable to the Company in respect of any shares held by such shareholder in the Company.

64. The instrument appointing a proxy shall be

- (a) in writing.
- (b) under the hand of the appointor or his attorney duly authorized in writing.
- (c) where the appointor is a corporation, either under its corporate seal or under the hand of an officer or attorney duly authorized.

65. Save as provided in the statutes, no person shall be appointed a proxy who is not a shareholder and entitled to vote, provided always that a corporation being a shareholder entitled to vote may appoint any person to be its proxy and the person so appointed may attend and vote at any general meeting at which the appointor is entitled to vote.

66. The instrument appointing a proxy, and the power of attorney (if any) under which it is signed, shall (subject to the provisions of clause 67 hereof) be deposited at the head office or at any other place appointed by the Board for that purpose, not less than twenty-four (24) hours before the time fixed for holding the meeting at which the person named in such instrument is authorized to vote.

67. The Board may from time to time make regulations:

- (a) regarding the lodging of instruments appointing a proxy at some place or places other than the place at which a general meeting or adjourned meeting is to be held and for particulars of such instruments to be sent by any form of transmitted or recorded message to the Company or any agent of the Company for the purpose of receiving such particulars before the meeting or adjourned meeting, and
- (b) that any instrument appointing a proxy so lodged may be voted upon as though the instruments themselves had been filed with the Secretary

and votes given in accordance with such regulations shall be valid and shall be counted.

68. Pending the making of such regulations, the chairman of the general meeting shall accept a telegraphic or other form of transmitted or recorded communication as to the authority of anyone claiming to vote on behalf of and to represent a shareholder, subject to that shareholders written ratification within 30 days, notwithstanding that no instrument of proxy conferring such authority has been lodged with the company, and any votes given in accordance with such telegraphic or other form of transmitted or recorded communication shall be valid and shall be counted.

69. An instrument appointing a proxy shall be in the following form or in any other form of which the Board shall approve:

“I \_\_\_\_\_ of \_\_\_\_\_  
 a shareholder of \_\_\_\_\_, hereby  
 appoint \_\_\_\_\_ of \_\_\_\_\_ or  
 failing him \_\_\_\_\_ of \_\_\_\_\_  
 as my proxy to vote or otherwise act for me and on my behalf at the  
 meeting of the shareholders of the  
 Company to be held on the \_\_\_\_\_ day of \_\_\_\_\_ 19 \_\_\_\_\_,  
 and at any adjournment thereof.  
 DATED this \_\_\_\_\_ day of \_\_\_\_\_ 19 \_\_\_\_\_.

---

Signature of Shareholder”

70. A vote given in accordance with the terms of or pursuant to an instrument of proxy shall be valid notwithstanding the previous death of the principal or revocation of the proxy or transfer of the shares in respect of which the vote is given, provided no intimation in writing of the death, revocation or transfer shall have been received at the head office one hour at least before the time fixed for holding the meeting.

#### Scrutineers

71. At any general meeting one or more scrutineers may be appointed by a resolution of the meeting, or by the Chairman with the consent of the meeting, to serve at that meeting. Such scrutineers need not be shareholders of the Company.

#### DIRECTORS

##### Number and Quorum

72. The affairs of the Company shall be managed by a Board of Five (5) directors of whom Two (2) shall constitute a quorum.

##### Qualification

73. The qualification of a director shall be the holding at the time of his election or appointment and throughout his term of office of at least one fully paid up and non-assessable common share in the capital stock of the Company, provided, however, that any person who is an officer or director of any other company which is a common shareholder of the Company may hold office as a director of the Company without further qualification.

##### Term and Vacation of Office

74. The directors shall hold office from the date of the meeting, save as hereinafter provided, at which they are elected or appointed until the annual meeting next following or until their successors are elected or appointed.

75. The shareholders present in person or voting by proxy at a special general meeting called for the purpose may at any time and from time to time by affirmative vote remove any Director or Directors before the expiration of his or their period of office and elect or appoint another qualified person or persons in his or their stead to fill the vacancy or vacancies caused by such removal.

76. Election of directors shall not be by ballot unless demanded.

77. The whole Board shall be elected at each annual meeting and retiring directors shall be eligible for re-election if otherwise qualified.

78. A retiring director shall retain office until the dissolution or adjournment of the meeting at which his successor is elected.

79. The office of a director shall ipso facto be vacated if he—

- (a) becomes bankrupt or suspends payment or compounds with his creditors or makes an authorized assignment or is declared insolvent;
- (b) is found to be mentally incompetent or becomes of unsound mind;
- (c) ceases to be qualified as provided in clause 73 hereof; or
- (d) by notice in writing to the Company resigns his office of director.

80. So long as a quorum of directors remains in office, any vacancies from time to time occurring in the Board may be filled by the Board.

81. A person appointed by such directors as remain in office to fill a vacancy in the Board shall hold office for the balance of the unexpired term of the vacating director.

#### Meetings of Directors

82. Meetings of the Board may be held:

- (a) either at the head office or elsewhere as the Board may from time to time determine,
- (b) at any time without formal notice being given if:
  - (i) all the directors are present, or
  - (ii) a quorum is present and those directors who are absent have signified their consent in writing, or by telegraph or by any other form of transmitted or recorded message, to the holding of a meeting in their absence, and any resolution passed, or proceeding had, or action taken at such meeting shall be as valid and effectual as if it had been passed at or taken at a meeting duly called and constituted.

83. A meeting of the Board:

- (a) may be convened by the President or a Vice-President or any two directors at any time, and
- (b) shall be convened by the Secretary by direction of the President or a Vice-President or any two directors,

and notice of such meeting shall be delivered or mailed or telegraphed or sent by any other form of transmitted or recorded message to each director not less than two days (exclusive of the day on which the notice is delivered or mailed or telegraphed or sent, but inclusive of the day for which notice is given) before the meeting is to take place.

84. Notice of any meeting or any irregularity in any meeting or notice thereof may be waived by any directors.

85. For the first meeting of the Board held immediately after the election of directors at a general meeting no formal notice of such meeting of the Board shall be necessary provided that a quorum of directors be present.

86. In the case of a director elected or appointed to fill a vacancy on the Board, no notice of such meeting shall be necessary to the newly elected or appointed director or directors in order legally to constitute the meeting, provided a quorum of directors be present.

87. Any director who may be either temporarily or permanently resident out of, or absent from, the Province of Alberta may file with the Secretary a written waiver of notice of any meeting of the Board being sent to him and may at any time withdraw such waiver and, until such waiver shall be withdrawn, no notice of meetings of the Board shall be sent to such director and any and all meetings of the Board, notice of which shall not have been given to such director, shall (providing a quorum of the Board be present) be valid and binding upon the Company.

88. The Board may by resolution appoint a day or days in any month or months for regular meetings at a place and hour therein named. A copy of such resolution shall be sent to each director forthwith after being passed, but no other notice shall be required for any such regular meeting.

89. Questions arising at any meeting of the Board shall be decided by a majority of votes. In the case of an equality of votes, the chairman of the meeting, in addition to his ordinary vote, shall have a second or casting vote.

90. A resolution signed by all the directors shall be as valid and effectual as if it had been passed at a duly called and constituted meeting of the Board and shall be read as a minute at the next meeting of the Board subsequent to the date when the resolution was signed and shall be entered in the minute book of the Company accordingly.

#### Powers of Directors

91. In addition to the powers and authorities conferred on it by the Statutes:

- (a) the business and affairs of the Company shall be managed by the Board which may conduct the same as may be necessary and as it deems advisable, and
- (b) the Board may exercise all such powers of the Company and do on behalf of the Company all such acts and things as may be exercised and done by the Company and as are not by the Statutes or the by-laws required to be exercised or done by the Company in general meeting;

subject, nevertheless, to any regulations contained in the by-laws or to the provisions of the Statutes and to such regulations being not inconsistent with the by-laws or with such provisions as may be prescribed by the Company in general meeting and provided that no such regulations shall invalidate any prior act of the Board which would have been valid if such regulations had not been made.

92. No director shall be disqualified by reason of his office of director from contracting with the Company either as vendor, purchaser or otherwise nor shall—

- (a) any such contract, nor any contract or arrangement entered into by or on behalf of the Company in which any directors shall be in any way interested, be avoided;
- (b) any director so contracting or being interested be liable to account to the Company for any profit realized from any such contract or arrangement by reason of such director holding that office or the fiduciary relation thereby established;

but the nature of the director's interest must be disclosed by him at the meeting of the Board at which the contract or arrangement is determined on if his interest then exists or, in any other case, at the first meeting of the Board after the acquisition of his interest.

93. A general notice that a director is a member of any specified partnership, company or corporation and is to be regarded as interested in any subsequent transaction of the Company with such partnership, company or corporation shall be sufficient disclosure under the next preceding clause 92, and after such general notice it shall not be necessary to give any special notice relating to any particular transaction of the Company with such partnership, company or corporation.

94. A director shall not vote in respect of any contract or arrangement or any proposed contract or arrangement in which he is so interested and if he does so vote his vote shall not be counted, provided such voting prohibition shall not apply in the case of any contract or arrangement:

- (a) by or on behalf of the Company to give to the members of the Board, or any of them, security for advances or by way of indemnity, or
- (b) between the Company and any other company where the interest of the director in such last mentioned company consists solely in his being a director or officer thereof and the holder of not more than the number of shares therein requisite to qualify him as a director.

95. A director of the company may be or become a shareholder or a director of any other company in which the Company may be interested as vendor, purchaser, shareholder or otherwise, and no such director shall be accountable to the Company for any benefits received as shareholder or director of such other company.

96. Any director may hold any other office, whether of profit or otherwise, under the Company in conjunction with his office as director and on such terms as to remuneration or otherwise as the Board may arrange, and any director may act for himself or his firm in a professional capacity for the Company and he or his firm shall be entitled to remuneration for professional services as if he were not a director.

97. A director of the Company may accept office as director of any other company promoted by or in which the Company is interested and may subscribe for, guarantee the subscription of, or otherwise acquire, shares in any such other company and shall be in no wise accountable for any profits, dividends or benefits so obtained.

98. No act or proceeding of any director or the Board shall be deemed invalid or ineffective by reason of the subsequent ascertainment of any irregularity in regard to such act or proceeding or the qualification of such director.

#### REMUNERATION OF DIRECTORS

99. The remuneration to be paid to the directors shall be such as the Board shall from time to time determine and such remuneration shall be in addition to the salary paid to any officer of the Company who is also a member of the Board. The Board may also by resolution award special remuneration to any director undertaking any special service on the Company's behalf other than the routine work ordinarily required of a director by the Company and confirmation of any such resolution or resolutions by the shareholders shall not be required. The director shall also be entitled to be paid either an allowance for, or the amounts of, their travelling and other expenses properly incurred by them in connection with the affairs of the Company.

#### PROTECTION AND INDEMNITY OF DIRECTORS

100. The Company hereby consents that each and every director of the Company shall be deemed to have assumed office on the express understanding and agreement and condition that every director of the Company and his executors and administrators and estate and effects, respectively, shall from time to time and at all times be indemnified and saved harmless out of the funds of the Company from and against all costs, charges and expenses whatsoever which such director sustains or incurs in or about any action, suit or proceeding which is brought, commenced or prosecuted against him or them for or in respect of any act, deed, matter or thing whatsoever made, done or permitted by him or them in or about the execution of the duties of his or their office or offices, and also from and against all other costs, charges and expenses which he or they may sustain or incur in or about or in relation to the affairs thereof except such costs, charges or expenses as are occasioned by his or their own wilful neglect or default.

#### INDEMNITIES TO DIRECTORS

101. The Board is hereby authorized from time to time to cause the Company to give indemnities to any director or other person who has undertaken or is about to undertake any liability on behalf of the Company or any company controlled by it and to secure such director or other person against loss by mortgage and charge upon the whole or any part of the real and personal property of the Company by way of security any action from time to time taken by the directors under this clause shall not require approval or confirmation by the shareholders.

102. No director for the time being of the Company shall be liable for the acts, receipts, neglects or defaults of any other director or officer or employee or for joining in any receipt or act for conformity or for any loss, damage or expense happening to the Company through the insufficiency or deficiency of title to any property acquired by order of the Board for or on behalf of the Company or for the insufficiency or deficiency of any security in or upon which any of the moneys of or belonging to the Company shall be placed out or invested, or for any loss or damage arising from the bankruptcy, insolvency or tortious act of any person, firm, or corporation with whom or which any

moneys, securities or effects shall be lodged or deposited or for any other loss, damage or misfortune whatever which may happen in the execution of the duties of his respective office or trust or in relation thereto unless the same shall happen by or through his own wilful act or default.

103. The directors may rely upon the accuracy of any statement or report prepared by the Company's auditors and shall not be responsible or held liable for any loss or damage resulting from the paying of dividends or otherwise acting upon such statement or report.

#### SUBMISSION OF CONTRACTS ETC. FOR APPROVAL

104. Any contract, act or transaction may in the discretion of the Board be submitted for approval or ratification to an annual meeting or to any special meeting called for the purpose of considering the same and any contract, act or transaction that shall be approved or ratified by a resolution passed by a majority of the votes cast at any such meeting (unless any different or additional requirement is imposed by the Statutes or by the Special Act or any other by-law) shall be as valid and as binding upon the Company and upon all the shareholders as though it had been approved or ratified by every shareholder of the Company.

#### EXECUTIVE COMMITTEE

105. Whenever the number of directors constituting the Board shall consist of more than six (6), the Board may appoint not less than three (3) of its number to constitute an executive committee, of whom a majority shall constitute a quorum, and who may meet at stated times or on notice to all or any of their own number; the members of such committee shall advise with and aid the officers and directors of the company in all matters concerning its interest and in the management of its business and affairs and generally perform such duties and exercise such powers as may be directed or delegated from time to time to such committee by the Board. The Board may, by resolution delegate to such committee authority to exercise such of its powers, while the Board is not in session, as the Board may designate. Unless and until the Board otherwise determines by resolution, the President and any two directors appointed by the Board shall constitute the executive committee of the Company and shall be and are hereby vested with authority to exercise all the powers of the Board while the Board is not in session, except such powers as by law are required to be exercised by the Board.

106. The executive committee may act by the written consent of a quorum thereof, although not formally convened, and shall keep minutes of its proceedings and report the same to the Board at the next meeting of the Board.

#### OFFICERS

##### General

107. The officers of the Company shall be a President, a Secretary and, if deemed advisable, one or more Vice-Presidents, a General Manager or Managing Director, a Treasurer, an Assistant Secretary and/or an Assistant Treasurer and such other officers as the Board may from time to time by resolution determine.

108. None of the officers except the President or one Vice-President or Managing Director need be a member of the Board.

109. Any two or more of the aforesaid offices may be held by the same person except those of President and Vice-President.

110. In case and whenever the same person holds the office of Secretary and Treasurer he may, but need not, be known as the Secretary-Treasurer.

#### ELECTED OFFICERS

111. The Board, at its first meeting after its election, shall elect from its own number a President and, if it shall see fit, a Vice-President. In default of such election the then incumbents, if members of the Board, shall hold office until their successors are elected. Vacancies occurring from time to time in such offices may be filled by the Board from among its members.

#### Appointed Officers

112. The Board from time to time shall also appoint a Secretary and may appoint one or more additional Vice-Presidents, a General Manager or Managing Director, a Treasurer and such other officers as the Board may determine including one or more assistants to any of the officers so appointed. The officers so appointed may, but need not, be members of the Board.

#### Remuneration and Removal of Officers

113. The Board may fix the remuneration to be paid to officers, servants and employees of the Company and shall fix the remuneration of all officers elected or appointed by the Board.

114. Any officer, agent, servant or employee of the Company may receive such remuneration as may be determined notwithstanding the fact that he is a director or shareholder of the Company.

115. All officers, in the absence of a written agreement to the contrary, shall be subject to removal by resolution of the Board at any time, with or without cause.

#### Delegation by Officers

116. In case of the absence or inability to act of the President, a Vice-President or any other officer of the Company, or for any other reason that the Board may deem sufficient, the Board may delegate all or any of the powers of such officer to any other officer or to any director for the time being.

#### President

117. The President shall:

- (a) be the chief executive officer of the Company,
- (b) if present, preside at all general meetings,
- (c) in the absence of, or in case of there being no Chairman of the Board, if present, preside at meetings of the Board,
- (d) sign all instruments which require his signature,
- (e) have general superintendence and direction of all other officers of the Company,

- (f) submit to the annual meeting the annual report of the Board, if any, and the annual balance sheets and financial statements of the business and affairs, and reports on the financial position, of the Company.
- (g) from time to time report to the Board all matters within his knowledge which the interests of the Company require to be brought to the Board's notice,
- (h) be ex-officio a member of all standing committees,
- (i) have such other powers and duties as may from time to time be assigned to him by the Board,
- (j) perform all duties incident to his office.

#### Vice-President

118. The Vice-President, or, if more than one, the Vice-Presidents in order of seniority shall:

- (a) be vested with all powers and shall perform all the duties of the President in the absence or disability or refusal to act of the President, and
- (b) also have such other powers and duties, if any, as may from time to time be assigned to him, or them, by the Board.

#### Secretary

119. The Secretary shall:

- (a) issue or cause to be issued notices for all meetings of the Board, the shareholders and executive committee (if any) when directed so to do,
- (b) have charge of the minute books of the Company,
- (c) sign with the President or other signing officer or officers of the Company such instruments as require his signature, and
- (d) perform such other duties as the terms of his appointment call for or the Board may from time to time properly require of him.

#### Treasurer

120. The Treasurer shall:

- (a) have the care and custody of all the funds and securities of the Company,
- (b) deposit the same in the name of the Company in such bank or banks or with such depositary or depositaries as the Board may direct,
- (c) at all reasonable times exhibit his books and accounts to any director of the Company upon application at the office of the Company during business hours,
- (d) sign or countersign such instruments as require his signature, and
- (e) perform all duties incident to his office or that are properly required of him by the Board.

121. The Treasurer may be required to give such bond for the faithful performance of his duties as the Board in its uncontrolled discretion may require and no director shall be liable for failure to require any bond or for the insufficiency of any bond or for any loss by reason of the failure of the Company to receive any indemnity thereby provided.

## Assistant Secretary and Assistant Treasurer

122. The Assistant Secretary (if any) and the Assistant Treasurer (if any) or, if more than one, the Assistant Secretaries and the Assistant Treasurers shall respectively perform all the duties of the Secretary and Treasurer, respectively, in the absence of the Secretary or Treasurer as the case may be.

123. Any Assistant Secretary and any Assistant Treasurer shall also have such powers and duties as may from time to time be assigned to them by the Board.

## General Manager or Managing Director

124. The General Manager, if one be appointed, shall:

- (a) have full authority, subject to the authority of the Board and the supervision of the President:
  - (i) to manage and direct the business and affairs of the Company (except such matters as by law must be transacted or performed by the Board or by the shareholders in general meeting), and
  - (ii) to employ and discharge agents and employees of the Company,

provided that the Board may delegate to him any less power;

- (b) conform to all lawful orders given to him by the Board; and
- (c) at all reasonable times give to the directors or any of them, all information they may require regarding the affairs of the Company.

125. If and so long as the General Manager is a director, he may if the Board so decides, but need not, be known as Managing Director.

## Chairman of the Board

126. The Board may elect one of its number to be Chairman of the Board who may preside at any or all meetings of the Board and who may also hold the office of President or Vice-President.

## Vacancies

127. If the office of President, Vice-President, or other office shall be or become vacant, the Board, by resolution duly passed at any meeting duly called and held, may elect or appoint an officer or any person qualified to fill such vacancy or vacancies.

## ATTORNEYS OR AGENTS

128. The Board may at any time and from time to time appoint any person or persons to be the attorney or agent or attorneys or agents of the Company for such purposes and with such powers, authorities and discretions (Not exceeding those vested in or exercisable by the Board under the by-laws) and for such period and subject to such conditions as the Board may from time to time think fit.

129. Any attorney or agent may be authorized by the Board to delegate all or any of the powers, authorities and discretions for the time being vested in him subject to the Board's confirmation.

## TRUSTEES

130. The Board may appoint a trust company or any two or more responsible persons to be a trustee or trustees for the Company for any purpose for which it is deemed advisable to have the intervention of a trustee or trustees and, in particular, the whole or any part of the property of the Company may be vested in such trustee or trustees either for the benefit of the shareholders, or to secure to the creditors or obligees of the Company the payment of any money, or for securing any debentures or debenture stock of the Company, or for the payment or performance of any obligations which the Company ought to pay or perform, subject as in any deed of trust or trust instrument provided. The Board may at any time fill any vacancy in the office of trustee.

## BOOKS OF THE COMPANY

131. The Secretary or the Assistant Secretary or Assistant Secretaries shall keep or cause to be kept a book or books wherein shall be recorded:

- (a) the names, alphabetically arranged, of all persons who are or have been shareholders;
- (b) the address and calling of every such person, while such is a shareholder;
- (c) the number of shares of each class held by each shareholder;
- (d) the amounts paid in, and remaining unpaid, respectively, on the shares of each shareholder;
- (e) all transfers of shares in their order as presented to the Company for entry, with the date and other particulars of transfer, and the date of the entry thereof; and
- (f) the names, addresses and callings of all persons who are or have been directors of the Company, with the several dates at which each became or ceased to be such director;

provided always that the matters referred to in sub-clause (a), (b), (c) and (d) hereof may, if permitted by the Statutes, be kept in books maintained by any transfer agent or agents appointed by the Board.

## INSPECTION OF BOOKS AND ACCOUNTS

132. The books, accounts and records of the Company shall be open to inspection by any member of the Board at all times. Except as otherwise provided by the Statutes, shareholders may not inspect the books of the Company except at such times and places as the Board may by resolution determine.

133. No shareholder shall be entitled to discovery of any information respecting any details or conduct of the Company's business which in the opinion of the Board it will be inexpedient in the interests of the shareholders of the Company to communicate to the public.

## ACCOUNTS AND AUDIT

134. The Board shall cause to be kept proper books of account and shall, at each annual general meeting, submit to the shareholders an audited balance sheet made up to a date not more than four (4) months before such annual meeting, together with the report of the auditor or auditors and such other accounts and information as are required by the Statutes.

## FISCAL YEAR

135. Unless otherwise ordered by the Board the fiscal year of the Company shall terminate on the 31st of December in each year.

## DIVIDENDS

136. Subject to the rights of the holders of any shares entitled to any priority, preference or privilege, the Board may, from time to time by resolution, declare dividends and pay the same out of the funds of the Company available for that purpose.

137. The resolution of the Board declaring a dividend may direct payment of such dividend wholly or in part by the distribution of specific assets and in particular of paid up shares, debentures or debenture stock of the Company, or of any other company, or in any one or more of such ways, and where any difficulty arises in regard to the distribution it may settle the same as it deems expedient, and may fix the value for distribution of such specific assets, or any part thereof, and may determine that such payments shall be made to any Shareholders of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees upon such trust for the persons entitled to the dividends as may seem expedient to the Board.

138. Interest may be paid out of capital where by virtue of the Statutes it is lawful to do so, but, except as permitted by the Statutes, no dividend shall be declared when the Company is insolvent or that will render the Company insolvent or that will impair the capital of the Company.

139. The Board shall deduct from the dividends payable to any shareholder all sums of money as may be due from him to the Company, on account of calls or otherwise.

140. The Company may transmit any dividend, or bonus, payable in respect of any share by cheque or warrant through the ordinary post to the registered address of the holder of such share (unless he shall have given written instructions to the contrary), and shall not be responsible for any loss arising therefrom. Every cheque or warrant so sent shall be made payable to the order of the person to whom it is sent.

141. No dividend shall bear interest as against the Company.

142. All dividends unclaimed for one (1) year after having been declared may be vested in or otherwise made use of by the Board for the benefit of the Company.

## RESERVES

143. The Board may:

- (a) from time to time set aside such sums as it deems fit as a reserve fund or funds to meet contingencies for:
  - (i) equalizing dividends,
  - (ii) special dividends,
  - (iii) repairing, improving and maintaining any of the property of the Company,
  - (iv) replacing wasting assets, or
  - (v) forming an insurance fund,

and for such other purposes whether or not similar to the foregoing, as the Board, in its absolute discretion, thinks conducive to the interests of the Company;

- (b) invest the several sums so set aside in such investments (other than shares of the Company) as it may think fit and from time to time deal with and vary such investments and dispose of all or any part thereof for the benefit of the Company; and
- (c) divide the reserve fund into such special funds as may think fit with full power to employ the assets constituting the reserve fund in the business of the Company without being bound to keep the same separate from other assets.

144. The Board may also carry forward to the accounts of the succeeding year or years any profit or balance of profit which it shall not think fit to divide or to place to reserve.

145. The Board may from time to time in its discretion increase, reduce or abolish any reserve fund in whole or in part and may transfer the whole or any part of any reserve fund to surplus.

#### VOTING SHARES AND SECURITIES IN OTHER COMPANIES

146. All of the shares or other securities carrying voting rights of any other company or companies held from time to time by the Company may be voted at any and all meetings of shareholders or holders of other securities, as the case may be, of such other company or companies and in such manner and by such person or persons as the Board shall from time to time determine.

147. The proper signing officers of the Company may also from time to time execute and deliver for and on behalf of the Company instruments of proxy and/or arrange for the issuance of voting certificates and/or other evidence of the right to vote in such names as they may determine without the necessity of a resolution or other action by the Board.

#### CHEQUES, DRAFTS AND NOTES

148. All cheques, drafts or orders for the payment of money and all notes and acceptances and bills of exchange shall be signed by such officer or officers or person or persons, whether or not officers of the Company, and in such manner as the Board may from time to time designate.

#### BOOKS OF ACCOUNT

149. The books of account of the Company may be kept either at the head office or at such other place in Canada as the Board may from time to time determine or approve.

#### EXECUTION OF INSTRUMENTS

150. (a) The term "contracts, documents or any instruments in writing" as used in this clause shall include deeds, mortgages, hypothecs, charges, conveyances, transfers and assignments of property real or personal, immovable or movable, agreements, releases, receipts and discharges for the payment of money or other obligations, conveyances, transfers and assignments of shares, stocks, bonds, debentures or other securities and all paper writings.

- (b) Contracts, documents or any instruments in writing requiring the signature of the Company may be signed by the President or a Vice-President together with any one of the Secretary, Treasurer, Assistant Secretary or Assistant Treasurer and all contracts, documents and instruments in writing so signed shall be binding upon the Company without any further authorization or formality.
- (c) The Board shall have power from time to time by resolution to appoint any officer or officers, person or persons on behalf of the Company either to sign contracts, documents and instruments in writing generally or to sign specific contracts, documents or instruments in writing.
- (d) The seal of the Company may when required be affixed to contracts, documents and instruments in writing signed as aforesaid or by any officer or officers, person or persons, appointed by resolution of the Board.
- (e) In particular and without limiting the generality of the foregoing, the President or a Vice-President together with the Secretary or the Treasurer, or any two directors shall have authority:
  - (i) to sell, assign, transfer, exchange, convert or convey any and all shares, stocks, bonds, debentures, rights, warrants or other securities owned by or registered in the name of the Company.
  - (ii) to sign and execute under the seal of the Company or otherwise all assignments, transfers, conveyances, powers of attorney and other instruments that may be necessary for the purpose of selling, assigning, transferring, exchanging, converting or conveying any such shares, stocks, bonds, debentures, rights, warrants or other securities.

## NOTICES

### Service

151. Any notice may be given by the Company to any shareholder, director, or officer of the Company either personally or by sending it through the post in a prepaid envelope or wrapper or by telegram addressed to such shareholder, director or officer at his address as the same appears in the books of the Company, or if no address be given therein then to the last address of such shareholder, director or officer known to the Secretary.

### Shares Registered in More Than One Name

152. All notices with respect to any shares registered in more than one name shall be given to whichever of the persons or bodies corporate is named first in the books of the Company and notice so given shall be sufficient notice to all the holders of such shares.

### Persons Becoming Entrusted By Operation Of Law

153. Every person or body corporate who by operation of law, transfer or by any other means whatsoever shall become entitled to any share or shares shall be bound by every notice in respect of such share or shares which previously to his or its name and address being entered on the books of the Company shall be duly given to the person or body corporate from whom he or it derives title to such share or shares.

## Deceased Shareholders

154. Any notice or document delivered or sent by post or left at the address of any shareholder as the same appears in the books of the Company shall, notwithstanding that such shareholder be then deceased, and whether or not the Company has notice of his decease, be deemed to have been duly served in respect of the shares whether held solely or with other persons by such shareholder until some other persons by such shareholder until some other person be entered in his stead in the books of the Company as the holder or one of the holders thereof and such service shall for all purposes be deemed a sufficient service of such notice or document on his heirs, executors or administrators and on all persons, if any, interested with him in such shares.

## Signatures to Notices

155. The signatures to any notice to be given by the Company may be written, stamped, typewritten or printed or partly written, stamped, typewritten or printed.

## Computation of Time

156. Where a given number of days' notice or notice extending over any period is required to be given the day of service or posting of the notice shall, unless it is otherwise provided, be counted in such number of days or other period.

## Proof of Service

157. A certificate of the Secretary or other duly authorized officer of the Company in office at the time of the making of the certificate or of the transfer officer of any transfer agent of shares of any class of the Company as to facts in relation to the mailing or delivery of any notice to any shareholder, director or officer or publication of any notice shall be conclusive evidence thereof and shall be binding on every shareholder, director or officer of the Company as the case may be.

## Coming into Force

158. This by-law shall come into force on the day on which it is sanctioned at a general meeting of shareholders.

Enacted this            day of            1964.

Witness the corporate seal of the Company.

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President

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Secretary



HOUSE OF COMMONS

Second Session—Twenty-sixth Parliament

1964

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STANDING COMMITTEE

ON

**RAILWAYS, CANALS AND  
TELEGRAPH LINES**

*Chairman:* JEAN T. RICHARD, Esq.

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6

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THURSDAY, NOVEMBER 26, 1964

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Respecting

**BILL S-33—An Act to incorporate the Ottawa Terminal  
Railway Company.**

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WITNESSES:

*From the National Capital Commission:* Lt. Gen. S. F. Clark, Chairman and Mr. D. L. Macdonald. *From the Canadian National Railways:* Mr. J. W. G. Macdougall, Q.C., Solicitor General. *From the Canadian Pacific Railway:* Mr. K. D. M. Spence, Commission Council and Mr. George Pogue.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1964

STANDING COMMITTEE  
ON  
RAILWAYS, CANALS AND TELEGRAPH LINES

*Chairman:* Jean T. Richard, Esq.

and Messrs.

Armstrong	Granger	Marcoux
Balcer	Greene	Matte
Barnett	Grégoire	McBain
Basford	Guay	Millar
Béaulé	Gundlock	Mitchell
Béchar	Hahn	Muir ( <i>Lisgar</i> )
Boulanger	Horner ( <i>Acadia</i> )	Nugent
Cadieu	Howe	Olson
Cameron ( <i>Nanaimo-</i> <i>Cowichan-The Islands</i> )	( <i>Wellington-Huron</i> )	Pascoe
Cantelon	Irvine	Peters
Cantin	Kennedy	Pugh
Caron	Korchinski	Rapp
Cooper	Lachance	Regan
Cowan	Laniel	Rhéaume
Crossman	Latulippe	Rock
Crouse	Leblanc	Ryan
Ethier	Lessard	Southam
Fisher	Lessard ( <i>St-Henri</i> )	Stenson
Francis	Macdonald	Tardif
Godin	MacEwan	Tucker—60.
	Mackasey	

(Quorum 12)

D. E. Levesque,  
*Clerk of the Committee.*

ORDERS OF REFERENCE

HOUSE OF COMMONS

TUESDAY, September 29, 1964.

*Ordered*,—That the name of Mr. Gundlock be substituted for that of Mr. Lamb on the Standing Committee on Railways, Canals and Telegraph Lines.

TUESDAY, November 10, 1964.

*Ordered*,—That the following Bills be referred to the Standing Committee on Railways, Canals and Telegraph Lines:

Bill S-33, An Act to incorporate the Ottawa Terminal Railway.

Bill S-7, An Act to amend the Canada Shipping Act.

TUESDAY, November 24, 1964.

*Ordered*,—That the names of Messrs. Francis, Tardif, Greene, Caron and Ethier be substituted for those of Messrs. McNulty, Lloyd, Foy, Berger and Addison on the Standing Committee on Railways, Canals and Telegraph Lines.

WEDNESDAY, November 25, 1964.

*Ordered*,—That the names of Messrs. Peters and Barnett be substituted for those of Messrs. Orlikow and Prittie on the Standing Committee on Railways, Canals and Telegraph Lines.

Attest.

LÉON-J. RAYMOND,  
*Clerk of the House.*



## MINUTES OF PROCEEDINGS

THURSDAY, November 26, 1964.

(15)

The Standing Committee on Railways, Canals and Telegraph Lines met this day at 9:45 o'clock a.m. The Chairman, Mr. J. T. Richard, presided.

*Members present:* Messrs. Barnett, Béchar, Caron, Cowan, Crossman, Ethier, Fisher, Granger, Hahn, Kennedy, Leblanc, Macdonald, Millar, Pascoe, Peters, Rapp, Regan, Richard, Rock, Tardif, Tucker—(21).

*Witnesses:* From the National Capital Commission: Lt. Gen. S. F. Clark, Chairman, and Mr. D. L. Macdonald. From the Canadian National Railways: Mr. J. W. G. Macdougall, Q.C., Solicitor General. From the Canadian Pacific Railways: Mr. K. D. M. Spence, Commission Council, and Mr. George Pogue.

The Chairman introduced the witnesses and the Committee proceeded to the consideration of Bill S-33, An Act to incorporate the Ottawa Terminal Railway.

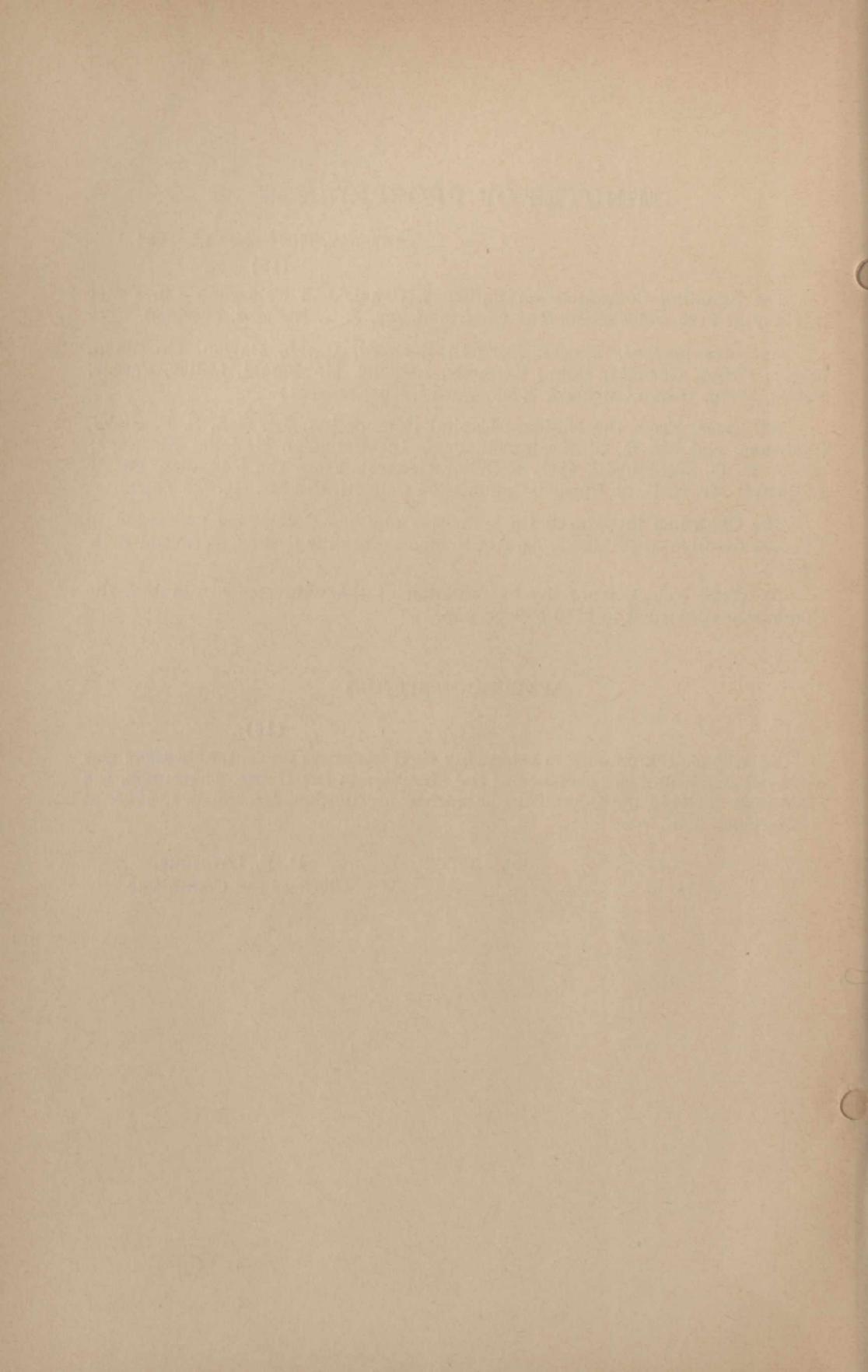
At 12:30 o'clock p.m., the examination of the witnesses continuing, the Committee adjourned to 3:30 o'clock p.m.

### AFTERNOON SITTING

(16)

At 4:05 o'clock p.m. there being only eight members present, a message was received requesting the presence of the Members in the House. Thereupon, the Chairman declared the Committee adjourned to Tuesday, December 1, 1964, at 9:30 o'clock a.m.

D. E. Levesque,  
*Clerk of the Committee.*



## EVIDENCE

THURSDAY November 26, 1964

The CHAIRMAN: Gentlemen, we have a quorum. This morning we have for your examination and approval, Bill No. S-33, an act to incorporate the Ottawa Terminal Railway Company. As you know, gentlemen, this bill was passed through the Senate and referred to us on November 10, after second reading in the house. It was examined very closely in committee of the Senate. However, the House of Commons may have different points of view to bring out on this bill. We have with us as witnesses Lt. Gen. S. F. Clark, chairman of the National Capital Commission; Mr. D. L. Macdonald, also of the National Capital Commission; Mr. J. W. G. Macdougall, Q.C., and Mr. Macdonald, of the Canadian National Railways. From the C.P.R. we have Mr. Spence, their counsel and Mr. Pogue. From the trucking association we have Mr. Gazdik and also Mr. A. W. Beament, Q.C., a representative of the Ottawa Transportation Commission.

Just for a start I would ask you to bear in mind the purpose of the bill is to implement, with regard to the incorporation of the terminal railway company, the agreement for the relocation of railways in the Ottawa area dated October 17, 1963 between the National Capital Commission, the Canadian Pacific Railway Company and the Canadian National Railway Company. I do hope, gentlemen, that we can keep our discussions within the limits of the bill. I will try and remind you, if necessary, so that we may co-operate and have a better discussion of the essential part of the bill, which, after all, is the incorporation of the company to administer the terminal and not a choice of site, which personally, I might say to the members of the committee and others, I did not approve of first of all, but that was a personal view.

Mr. PETERS: Could I ask the Chairman a question. There can be no other terminal; is this correct?

Mr. COWAN: There could be dissolution of parliament, Mr. Peters, yes.

The CHAIRMAN: I will proceed to call Lt. Gen. Clark of the National Capital Commission. I think he should give us the general background and outline the purpose of the bill.

Lt. Gen. S. F. CLARK (*Chairman, National Capital Commission*): I am very happy to be here to explain the background leading up to the decision to relocate the railway. I should like also to give you a brief report on the progress that has been made to date. I will not go deeply into the historical background because it dates back to the plans made by Sir Hubert, Couchon and others who were very involved in the development of plans for National Capital. I have one quotation if you will permit me to make it—dealing with the plan for the national capital, Mr. Greber that world renowned planner who prepared the plan for the national capital stated: "The remodelling of the railway facilities have, therefore, become the framework of the master plan for the capital".

Some of the improvements that were contemplated as a result of the remodelling of railway lines in the centre of the city, were, first of all, the reduction in the number of level crossings. The plan will reduce those by about 70. This was deemed to be very important because of the growth of

the city and the very rapid growth of the number of motor vehicles that were using the roads in the city. It would improve communication and reduce the danger of travel very considerably, and, indeed, it would also reduce the expenditures that all levels of government would have to make to separate the grades of the railway and the roads.

The second point that was contemplated was the simplification of railway operations. It was believed that the removal of duplicate lines and the concentration of railway operations under that terminal railway company would lead to simplification and to economies. Under this plan some 30 to 35 miles of track are to be abandoned. Under the new plan the terminals, workshops, classification yards, communication buildings and such things are being concentrated in the southeast corner of the city. It was contemplated that the abandonment that right of ways would be used to build traffic arteries in the form of highways, parkways and roads. It was also contemplated that the reorganization of the railway lines and facilities would improve land values and lead to redevelopment.

As you know the cities of Ottawa and Hull were bisected by these railway lines. There were deteriorating industrial areas which were rather unsightly. Also there was very little room for expansion in these areas and it was believed that the removal of these industrial areas in the centre of the city would serve to promote a very healthy redevelopment. It was also contemplated that industries could relocate in new areas where they could build modern plants and where they would have room to expand.

The joint parliamentary committee on the federal district commission in 1956 recommended some modifications to the railway location proposals made in the master plan by Mr. Greber. The report of the joint parliamentary committee was tabled in both houses on the first of August 1956. I would like to have Mr. McQuarrie outline on the map what was contemplated at that time and what the recommendations of the joint parliamentary committee were.

The first was the removal of the railway lines of the Canadian National Renfrew subdivision which ran from west to east across the city of Ottawa. I will speak about that later. That is now the Queensway. The second was the abandonment of the Canadian Pacific Railway Sussex Street Subdivision from Bank street in the south along past Hurdman through Eastview behind city hall to C.P.R. yards on Sussex drive. I will speak about developments that are taking place there in a moment.

The abandonment of the C.P.R. Carleton Place subdivision from Bell's Corners to the Ottawa West station at Bayview road; the abandonment of the C.N.R. Beachburg subdivision from Wass to Hurdman; the abandonment of the railway lines from Hurdman's Bridge across the Rideau river along the bank of the canal past the present union station and over the Alexander bridge almost to Brewery creek in Hull, and the construction of a new station at or about the intersection of Walkley and Conroy roads.

In 1959, the government decided that the new station should be built east of the Rideau river near Alta Vista and the Queensway, three miles closer to the present union station and the site proposed by Mr. Greber. As a result of this change in site of the railway station the Beachburg subdivision line from Wass to Hurdman had to be retained for efficient railway operations.

If I may say a few words, Mr. Chairman, on progress, the Renfrew subdivision of the C.N.R. from Nepean junction running through the city of Ottawa has been removed and eight miles of the Queensway which is part of the trans-Canada highway system has been built on this abandoned right of way. Construction is continuing. It is completed now to Elgin street. The next stretch from Elgin to Concord will be completed next year and finally

it will be joined with an eastern section of the Queensway in 1966—late 1966, when the railway lines running to the union station have been removed.

I would like to speak about the Sussex subdivision of the C.P.R. The commission approved the abandonment of the Sussex street subdivision from Sussex Drive to Beechwood on the 15th of June this year and has approved the abandonment of the remainder of the line on one month's notice from October 1, 1965. The northern part of Sussex street subdivision land is being used to provide interchanges and approaches to the Macdonald Cartier Bridge—which is being built across the river. Other lands acquired by the commission in this area, either from private owners or from the C.P.R. is available for the government to use as it deems appropriate for this particular area.

When the remainder of that subdivision is abandoned the right of way will provide part of the land needed for a road connection from the Ottawa end of the Macdonald-Cartier bridge to the Queensway and to the station. This is contemplated in the Ottawa official plan of roads. It is planned that the railway lines running past the Union station to Brewery creek in Hull will be removed late in 1966 when it is expected that the new station will be finished and in operation. When this is done the commission plans to call for the construction of a driveway from the site of the present Union station along the east bank of the canal connecting to an interchange at the Queensway very close to the new station. It also calls for joining Echo drive on the south bank of the canal to the new parkway at Deepcut. The distance from the new station to the location of the old one is just over two miles and should be about a four to five minute drive. We expect and hope that it will be a very pleasant driveway. Our consultants are studying the ways and means to see if it is possible to make a connection from this driveway, the site of the present Union station along the railway lines, to the Alexander bridge. This is a rather difficult one, but we hope it can be done.

The abandonment of the Carleton Place subdivision from Bell's Corners to Ottawa West and the railway tracks and yards in LeBreton flats will enable the government to assemble in the LeBreton flats area a site for government buildings, and possibly some for use by private capital of 142 acres, some 55 acres acquired by the commission, 60 plus acres coming from the railways and some 29 acres being recovered by filling in part of Nepean bay. This provides a 142 acre site exactly one mile from the Peace tower. Removal of these lines will also give the commission land to widen the Ottawa parkway as it approaches Britannia and the removal would also permit the widening of a part of Scott street.

Last autumn the government announced its approval, in principle, for redevelopment of present Union station area. This has been generally known as the "Parkin Plan" which calls for the construction of government buildings in the triangle of land between the canal, Nicholas and Laurier, an area large enough for about one and a quarter million square feet of office buildings. The proposal calls for buildings by private capital in the area north of the Mackenzie King bridge to Wellington and Rideau. The plan contemplates a new hotel for some 500 guests, office buildings for non-government use and an auditorium for conventions.

The last subdivision mentioned was the Prescott subdivision which runs across the Ottawa river and Prince of Wales bridge, the Queensway, Carling, Dows lake and Carleton University. These railway lines will have to carry the interprovincial railway traffic and because of this it will have to be grade separated. The work is under progress. That tunnel under the canal at the end of Dows lake has been completed and the contractors are working on the grade separations at highway 16 and Carling avenue, now.

I would like to say one word about industrial lands. The government authorized the commission to acquire and develop industrial lands adjacent to Walkley road, Sheffield road, Belfast road, Coventry road and at Bells' Corners for sale to industry which had to relocate because of removal of the railway lines, and any other activities of the commission. The industrial areas adjacent to Belfast, Sheffield and Coventry road are ready for use. Sixteen sites of some 80 acres have been sold and on 14 of these sites, approximately 66 acres, new industrial buildings either have been constructed or are under way.

It was the judgment of the two railways and the commission that the elimination of duplicate railway lines and facilities and their concentration into one railway system in the national capital region could best be operated by the terminal railway company.

Mr. Chairman, this is a very brief summary of the railway location plan. May I say, the commission believes when this plan is completed it will have achieved the objectives contemplated by the various agencies which planned the project and by the report which was tabled in 1956 in both houses.

The CHAIRMAN: Thank you very much. Now, gentlemen, I am sure there are a few members who would like to ask questions. Mr. Macdonald.

Mr. MACDONALD (*Rosedale*): Gen. Clark, can you tell me if the C.P.R. line from Arnprior subdivision west of Island Park drive is to be abandoned.

Gen. CLARK: I do not think this is the one you mean.

Mr. MACDONALD (*Rosedale*): This is the one I mean. Is its removal dependant upon the establishment of the new station or completion of the new Macdonald-Cartier bridge or dependant on both?

Gen. CLARK: I would think its removal is not dependant on the station. The one that is dependant on the new station and which is being grade separated is the Prescott Subdivision.

Mr. MACDONALD (*Rosedale*): Assuming that this particular bill runs into difficulties, and I am not saying that it will, it is rather the completion of the Macdonald-Cartier bridge which will permit the removal of that line sometime commencing about 1966.

Gen. CLARK: I am sorry; I just did not quite get your question.

Mr. MACDONALD (*Rosedale*): Presumably the completion of the Macdonald-Cartier bridge will permit the removal of the C.P.R. line sometime in 1966.

Gen. CLARK: I may be missing your point. I do not think the Macdonald-Cartier bridge influences this. If it does I do not see the connection.

Mr. MACDONALD (*Rosedale*): I presume when the Macdonald-Cartier bridge goes into operation the Alexander bridge is going to be removed and the railway line . . .

Gen. CLARK: Taken off.

Mr. MACDONALD (*Rosedale*): When will that be—1966?

Gen. CLARK: That is the date we are hoping for.

Mr. MACDONALD (*Rosedale*): Therefore, it will follow from that, that since access to the station is over that bridge the lines that I have reference to along the south river bank of the Ottawa river would also have to be removed at the same time.

Gen. CLARK: It would not have to be removed exactly on that date. You could still cross on the Prescott subdivision over the Prince of Wales bridge to Hull.

Mr. MACDONALD (*Rosedale*): So there is no definite date for the removal of the line west of Island Park drive at the present time?

Gen. CLARK: There is no definite date. An application is about to be made. The planned date is and I have to check my notes—sometime in 1966.

Mr. MACDONALD (*Rosedale*): The proposal then is to have another line right of way transferred by the C.P.R. and, perhaps, revert to the National Capital Commission.

Gen. CLARK: The right of way becomes the property of the commission plus 60 acres of the C.P.R. marshalling yards in LeBreton flats that will also be transferred to the commission.

Mr. MACDONALD (*Rosedale*): You made some reference to incorporation of some of the right of way on Scott street. Is there any proposal to use any part of the right of way west of Churchill avenue for the extension of Scott?

Gen. CLARK: The extent to which any part of the right of way is used would have to be negotiated between the commission and the city. It would not be the commission's responsibility because it forms no part of the driveway or parkway which the commission is building.

Mr. MACDONALD (*Rosedale*): You are not aware of any plans?

Gen. CLARK: If you look at the city's official plan of roads, you will see that they have contemplated the use of the railway lines which would be abandoned for the widening of Scott street that runs past Tunney's pasture. We have not negotiated with the city and it is a matter of city policy.

Mr. MACDONALD (*Rosedale*): I understand that the Prescott line will continue in operation and give access to industries such as Fleck.

Gen. CLARK: I do not recognize the name of that company.

Mr. TARDIF: I think he means Beach Foundry.

Mr. MACDONALD (*Rosedale*): I think it is called Fleck. For industries along Wellington and Somerset streets off that particular line, do you have any information what the plans are with respect to this?

Gen. CLARK: I could ask my staff that works with the city. I could ask my director of planning if he knows of an existing plan which contemplates some modification of the structure. Mr. Macdonald, can you say if the city plans some modification or changes to this?

Mr. D. L. MACDONALD (*National Capital Commission*): In answer to the question, the proposed use of the C.P.R. right of way parallel to Scott street as shown on the official plan of roads of the city of Ottawa is a major traffic artery. At the present time in collaboration with the department of highways of Quebec and Ontario the city of Ottawa is re-studying the whole road network. At the present time it looks as though the C.P.R. right of way will be required for an important traffic artery which will involve the widening of Scott street. In so far as the other question dealing with the Beach or Fleck foundry is concerned, the original recommendation was that the rail siding to this plant would be removed, but I think it is fair to say that it is still under study.

Mr. MACDONALD (*Rosedale*): You refer to the widening of Scott street; is there any thought of extending Scott street west from Churchill with the assistance of the abandoned right of way?

Mr. D. L. MACDONALD: The proposal is that it will be used partly because the road has to be adjusted. In part it is Scott street. In part it is the railway right of way widening, but it is not a continuous road at the present time.

Mr. MACDONALD (*Rosedale*): It will be continued past Churchill avenue?

Mr. D. L. MACDONALD: It is under study.

Mr. MACDONALD (*Rosedale*): I do not know whether this is a question to the general or to Mr. Macdonald, but I understand the parkway along the south

bank of the Ottawa river is planned in two stages. The first part I understand is almost completed now and the second part will incorporate the right of way which runs along that portion of the parkway; is that correct?

Gen. CLARK: I will answer that, Mr. Chairman. The right of way for the Ottawa river parkway does not involve the use of the railway right of way but toward the western end as it approaches Britannia some of the railway right of way can be used to widen it and give park lands in that area. The final stage cannot be completed until we remove the railway lines at LeBreton flats.

Mr. MACDONALD (*Rosedale*): A more specific question: can you tell me whether the stretch approximately one mile west of the extension of Mansfield avenue will be covered in one or two stages?

Gen. CLARK: I would have to refer that question to Mr. Macdonald. I do not recall Mansfield avenue.

Mr. D. L. MACDONALD: It dead ends the railway right of way at the present time. It is approximately a mile west of Churchill avenue.

The CHAIRMAN: The thing I am worried about is that we must not set ourselves up in this committee to make an examination of the national capital plan.

Mr. PETERS: Why not?

The CHAIRMAN: For that purpose we would have to get greater power from the house. This is not a committee to examine the affairs of the National Capital Commission as such but only in so far as it relates to the terminal and operation of the terminal.

Mr. MACDONALD (*Rosedale*): The general opened by discussing the right of way, the approval of the railway and the right of way.

The CHAIRMAN: Mr. Peters raised a point.

Mr. PETERS: The general raised this whole subject. All the member is doing is discussing what the general referred to and you have allowed it.

The CHAIRMAN: I have not allowed it in so far as it relates to the use of the railway right of way.

Mr. PETERS: I would suggest, Mr. Chairman, that the questions are directed to the railway in that area and I think that is related.

The CHAIRMAN: I am quite willing, Mr. Peters, provided it is limited to that.

Mr. MACDONALD (*Rosedale*): Rather than detain the committee perhaps I could have a private word with the general on this specific question later. My final question, and again I am not sure that this is within the purview of the committee, is what arrangements will be made for taxi services at the new station and will all taxi operators in Ottawa be entitled to pick up fares at the station?

Gen. CLARK: Mr. Chairman, as far as I am aware there is no restriction. The actual operation of the terminal railway will be under the railways. I think this question would be better put to the railways.

Mr. MACDONALD (*Rosedale*): I will pose the question to another witness.

The CHAIRMAN: Mr. Pascoe.

Mr. PASCOE: I was going to ask if there were maps for each member of the committee?

The CHAIRMAN: I will ask General Clark if there are copies of the maps available.

Mr. PASCOE: General Clark referred to land that would be available for office buildings when the present track was removed. What I am concerned with is will there be a limit on the height of the building so it will not detract from the parliament buildings or the Peace tower?

Gen. CLARK: Mr. Chairman, the architects who prepared the outline plan of this and various advisory committees of the commission, the design committee, have been very conscious of the need to preserve the sky-line, the vista, and not to have any heights which would in any way detract from the significance of the parliament buildings and the Peace tower.

Mr. PASCOE: There is nothing in the bill. How will they limit the height?

Gen. CLARK: The limits of the heights in the area will be controlled by the government through the commission because the area will be owned by the government. When any buildings are erected by private capital, Mr. Chairman, the land will be leased to them and their building designs would have to be approved by the commission. The government has control of any building on crown land that it leases. The government would retain complete control over the type of architectural design, height, et cetera, of buildings.

Mr. TARDIF: Mr. Chairman, is this not controlled by bylaw of the city of Ottawa.

The CHAIRMAN: Mr. Peters?

Mr. PETERS: I do not want to discuss all the other problems. I am interested in the station. It seems to me from what the gentleman has said that this is a foregone conclusion; that this is the general opinion and this would be the decision taken on the part of the commission to remove the present terminal.

Gen. CLARK: Yes, Mr. Chairman, the commission has no power of this sort on its own. These recommendations were made to the government some years ago and the government in 1959 approved the station being located on Alta Vista drive near Hurdman.

Mr. PETERS: In what form?

Gen. CLARK: By order in council.

Mr. PETERS: I do not remember it coming before parliament in the few years that I have been here. Parliament did not approve this; is that correct?

Gen. CLARK: I do not believe that the site of this station came before parliament for discussion except to the extent that the railway station had been planned in an area south of this at Walkley and Conroy roads.

Mr. PETERS: And it was changed from this Walkley site?

Gen. CLARK: This was a recommendation that was made by the then federal district commission to the government which approved it by order in council in 1961.

Mr. PETERS: Would you be aware of why it was recommended?

Gen. CLARK: Yes, I can give you some of the background, Mr. Chairman, on that. The original plan was at this site (pointing to the Walkley area). The new site is up here (pointing to the site near the Alta Vista drive and Queensway interchange), three miles closer. The original plan was to leave the railway station, the present Union station in operation for a fairly long number of years, the number was not specific, but they would carry on and complete the major portion of the railway relocation and then finally move the station. When this was examined there was certain cost implications that became evident fairly quickly. The Queensway would have to span it and bridges would have to be built over top of the railway lines, running to Union station. The plan, now, is to do it at grade rather than by elevated structure. Also there was a need to do a great deal of maintenance on the station and it was decided or agreed, I understand, between the railways and the commission that it would be more sensible to bring the station in closer and to build it sooner so as to avoid building structures over railway lines which would not be needed at a later date.

Mr. PETERS: Is it true that the moving of the station was violently opposed by the railways and great inducements were offered to them for them to agree to this plan at all?

Gen. CLARK: I was not in the discussion, Mr. Chairman. I think it would be better if the railway answered this question themselves. Any answer I would give on this would be hearsay. I understood that the railways were in agreement, but I believe it would be better for the railways to answer that question.

Mr. PETERS: Could I ask what studies have been made recently because there has been a great change in the thinking on the North American continent about commuter services. One that we are interested in is the one between Ottawa and Montreal which has not proven to be easy to establish by air. We have to go some distance from the airport in Ottawa to the downtown section of the city and great difficulty in getting to the airport. Certainly the capital commission should give some consideration to constructing a direct road to the airport. They should be interested in doing something worth while instead of this sort of thing. Are they also aware of the fact that some large cities such as Montreal and New York have, at great expense, taken their terminal into the central section of the city. One we are interested in is Montreal. We have a downtown terminal in Montreal. In Ottawa which is not conveniently reached by air travel at the present time our terminal is not adjacent to the city.

I would like to make it very clear, Mr. Chairman, that I am not suggesting I have objections to this bill. I am suggesting that the terminal we are speaking of should handle freight, express and other things. What I have in mind is a downtown commuter terminal that will have one track in and one track out where only passengers and baggage are brought in. It could be by electric locomotion. I think you could go to electric because it is not very far. Are the commission not aware of the development that has taken place in the last two or three years? What consideration has been given to this?

Gen. CLARK: Well, Mr. Chairman, I am not aware of any plans that the railways have for a commuter service to Montreal.

Mr. PETERS: They already have it. It is already there. There is a commuter service at eight o'clock in the morning or something like that. They have a 75 mile per hour train. It is a commuter train.

Gen. CLARK: I presumed you were speaking of an expansion of this, whether they intended to expand their commuter service with more trains in the future. We are aware of the trains that are running to Montreal, yes, Mr. Chairman. I think the commission has been aware of the various ways in which people come into the city. Our latest figures are here. These figures were given to us by our consultants in July of this year, the ones that are doing the Ottawa, Hull transportation study. They show at the present time about 8.7 per cent of the people arriving in Ottawa arrive by rail; 87.3 arrive by road and 4 per cent by air.

Mr. RAPP: Could you repeat the figures?

Gen. CLARK: Road, 87.3; rail, 8.7 and air 4 per cent. This was a sampling of 24 hour period. The figures that were given to us where 11,000 persons by road for 87.3%, 1,100 by rail for 8.7 and 500 by air for 4 per cent making a total of 12,600 a day.

As I mentioned, part of the railway relocation plan was to use railway rights-of-way for parks, roadways and highways to whatever scale or dimension they are built. We believe for example, the Queensway which was the old

railway right-of-way is serving a large number of people coming to and leaving Ottawa, and that the parkway which would be built, or driveway, whatever the appropriate term is, from the station to the site of the new station to, say, the Chateau Laurier area would be a four-lane driveway and could handle a great deal of traffic quickly. It would be connected to the Colonel By drive.

Mr. PETERS: My concern is with the 10 per cent of my constituents that are going to come to Ottawa by rail. I would be interested, Mr. Chairman, in knowing why such pressures were put on to move the station from the Walkley freight area. It seems to me the original decision was to move out of town, and frankly they did not accomplish this, they got all their freight cars and everything else in Greenbelt even in the beginning. Then they moved the station to Alta Vista where it is not serving any purpose such as a commuter service in the downtown area because two miles is a long way to walk. Transportation has to be provided. Obviously some pressure has been brought to bear to move it in that close. It is already in the centre of a residential area. Industrial avenue is going to prove to be very bad public planning, I would think, from Ottawa's point of view because Alta Vista is considered to be one of the new residential sections. This industrial development in it is probably going to make it a slum area before many years. What pressures were brought to bear to move that four miles closer to the centre of the city? I have no disagreement with the idea of moving everything except the passengers out of the city. We really have not done that. They are being scattered around in many areas that are rapidly growing. We have brought the station part back into the complex. I wonder what arguments can be usefully brought for this.

The CHAIRMAN: I was thinking that perhaps these questions could be directed later to the representatives of the Canadian National Railways because General Clark said he does not know.

Mr. PETERS: I do not know whether he does. He told us he is aware of what development is taking place in Ottawa in relation to the other abandonments of the lines. General Clark has testified what happened to the roads in redevelopment areas of Ottawa. This is a major change in thinking. What pressures were brought to bear to move that back into the residential area?

The CHAIRMAN: Will you, General Clark, answer once again as to whether you know or do not know?

Gen. CLARK: I do not know of any pressures so far as I am aware. I am happy to do research on it. This recommendation to move the station from Walkley and Conroy roads was planned primarily by the commission, discussed with the railways and so far as I know there was no pressure, certainly, put on the commission. I have not been told of any pressure. One of the reasons I mentioned for putting it there rather than leaving it out was that it would involve more costly construction of the Queensway. Also when the Queensway is through, if and when these tracks are removed, from the time point of view people in the east and west parts of Ottawa can get very quickly to the station along the Queensway, much faster than they could to the present site of the station because movement through the centre of Ottawa cannot be accomplished very quickly. I would think if you were to measure time from the western part of Ottawa or the eastern part of Ottawa to the site of the new station you will get there much more rapidly than getting to the present station.

Mr. PETERS: Mr. Chairman, will the witness not agree that this is true: We are dealing with less than 10 per cent of the travelling public. Will you not agree the public is divided into two classes, those that are visiting for personal reasons and those who are coming to Ottawa in a business sense. Our interest is, or at least my interest is, mainly those who are coming to Ottawa in a business

sense rather than those who are coming to visit relatives in Alta Vista or Britannia or anywhere else. Is it not our responsibility to differentiate between these two groups?

—Recess.

The CHAIRMAN: We will resume. Mr. Peters?

Mr. PETERS: Mr. Chairman, could I ask the witness if a feasibility study has been undertaken to determine the cost of covering the area from what they call Deep Cut to the present Union station? Has a feasibility study been undertaken?

Mr. COWAN: That is the last thing to be considered.

Gen. CLARK: Mr. Chairman. May I just check and make sure that we are talking about lands owned by the railways from Deep Cut to the Union station.

Mr. PETERS: The Canadian National has a line that comes in and winds at Deep Cut and it goes straight from there to Union station. This is a distance of about three quarters of a mile, I suppose.

Gen. CLARK: Yes. If the Chairman would agree I can have this figure looked up. I do not have it accurately in my head. I can give the committee the cost of the railway lands from the station to Deep Cut, in fact, right to where it crosses the railway Rideau river. We have got a right of way from Union station right through to the site of the new station. I can give the committee these figures if I can have one of my staff look them up.

Mr. PETERS: Has the commission given consideration to using this as an alternative to using the station on Industrial avenue?

Gen. CLARK: Mr. Chairman, when the recommendation that was made by the commission was approved by the government this land would come into the hands of the commission, and the land would be used for two purposes, one a parkway connecting to the Queensway at the site of the new station—and two the larger amount of land, on which the railway tracks, box cars and heating plant around the union station are situated—this is the area covered by the redevelopment plan. It widens considerably at the south part between Laurier bridge and the Mackenzie King bridge. That is where the three government buildings are contemplated, with a million and a quarter square feet. It will have much more dense use than the present use of the area because it is mostly railway sidings and small buildings.

Mr. PETERS: You do not really intend to run a road through there?

Gen. CLARK: Yes, Mr. Chairman, along the railway right of way close to the canal the plan is for a four lane driveway.

Mr. PETERS: Perhaps we are not talking of the same place. There does not seem to be much room between Echo drive and the canal, the embankment. There is not too much room, certainly not enough for a large building. It is very close to the canal.

Gen. CLARK: Mr. Chairman, may I just point out that the railway owns certain additional lands. I agree some of them were not too wide, but the commission already held the land between Nicholas street, Laurier avenue and the railway property. Those are owned by the commission and have been owned by the commission for some years. I admit if we did not own any land and we were only using the lands that came from the railways we would have been able to do little toward putting the driveway there. We already owned that very large triangle of land which is Nicholas, Laurier and Mackenzie King bridge. We own that land now and have owned it for some years.

Mr. PETERS: Has the commission given any consideration as to the disposition of the station that is there now?

Gen. CLARK: Yes, Mr. Chairman. The plan of the commission is to tear down the union station, the heating plant, the old freight sheds and clean that area out. This is the area that is planned for redevelopment and is covered in the "Parkin plan".

Mr. PETERS: This is the government building?

Gen. CLARK: At the bottom of the area, the south end, Mr. Chairman. As I mentioned, the Parkin plan, approved in principle by the government, calls for government buildings in this area. We have not approval for a particular building. The Department of Public Works not the commission, has approval in principle for three buildings, two or three. It will be an architectural point whether it will be two or three. These will have one and one quarter million square feet of office space. In the area north of the Mackenzie King bridge where the heating plant is the proposal of the commission is that it invites private capital to build in the area a hotel of about 500 to 600 capacity. It would also be available for private capital to erect office buildings, all of these for private use, not for government use, on land leased by the government on a long term lease. The commission also hopes that there will be built in that area at some time an auditorium for conventions that might wish to come to this city. To provide a convention auditorium or hall.

Mr. PETERS: Mr. Chairman, does this not conflict with our program establishing Confederation heights and Tunney's pasture for government buildings. Is the proposal the general has mentioned not in complete conflict with what we have decided and has been our practice.

The CHAIRMAN: I will let the general answer that. Gen. Clark.

Gen. CLARK: No, Mr. Chairman, I do not think it is in conflict. I would say it would be complementary to that. Mr. Chairman, as you realize a certain amount of land was bought out in Confederation heights where we have the post office, public works and the C.B.C. building. A number of people have gone in there. There is a feeling in government that we are placing too many people on the outskirts of this city and letting the center part of the city decay. We are trying to do sensible planning and have buildings and the people who need to be or ought to be closer to the parliament buildings.

Mr. COWAN: I would not put the C.B.C. out in Confederation heights away from parliament.

Mr. PETERS: One last question and I will pass to some one else. What is the reason for the tunnel at Dow's lake? What is the reason for this and where does it go? Is it contemplated that this crosses the river at an inter-provincial connection?

Gen. CLARK: Yes.

Mr. PETERS: Why was that railway left in?

Gen. CLARK: Mr. Chairman, there is a railway line there now which crosses to the province of Quebec. It crosses highway 16 which runs past the boat house up to the Experimental farm at grade. It crosses Carling avenue at grade and because the increased amount of railway traffic that will be on that line because of the elimination of the line across the Interprovincial or Alexander bridge it (the railway line) had to be grade separated, otherwise the traffic would be badly tied up there. The reason for the tunnel under the end of Dows lake, actually under the canal, is to separate the railway line and Colonel By drive which now cross at grade. The depression of the line starts beside Carleton University, goes under the canal, under highway 16, under

Carling avenue, under the Queensway and will return to present grade level close to the Prince of Wales bridge which carries the present railway line.

Mr. COWAN: I wonder if Mr. Peters would allow a supplementary question. I just want to clarify, general, as regards this particular line, if it crosses Carling it runs between Champlain and Preston. Through that area there will be a cut. Will that be a covered cut

Gen. CLARK: No, the cut will be open.

Mr. COWAN: The cut will be open?

Gen. CLARK: Yes.

Mr. COWAN: It will be bridged at each one of the streets such as Lawrence and Beech, a number of streets in that area.

Gen. CLARK: May I ask Mr. Macdonald if he knows the bridges on that. There is the Queensway bridge which exists now.

Mr. D. L. MACDONALD: The bridging will take place on highway 16 or the Prescott highway and Carling avenue, at Beech.

Mr. COWAN: Not at Lawrence.

Mr. D. L. MACDONALD: Not at Lawrence. At Beech, at Gladstone at the Queensway, at Somerset and at Wellington.

Mr. COWAN: The present crossing at Young will be eliminated also?

Gen. CLARK: Yes.

Mr. COWAN: Just in relation to this operation and the cost involved, Mr. Macdonald, in the grading; I suppose that after going under Carling you rapidly come back to the surface and it would still go underneath the Queensway if it were on the surface. It goes underneath the Queensway at the present time.

Mr. D. L. MACDONALD: By keeping the railway depressed it is possible to get separated crossings at Gladstone and at Beech which do not exist at the present time.

Mr. COWAN: In order to service those two streets at Gladstone and Beech—and Beech is a very minor crossing; there is not very much traffic except for neighbourhood traffic on Beech—the additional expense must be very considerable, must it not?

In other words, if you came back after Carling, came up to the surface and travelled where the line is at the present time there would be no necessity to take it all the way from Carling underneath the Queensway and all the way over until you get to Wellington. There must be quite a considerable amount of money involved.

Mr. D. L. MACDONALD: I think the problem is more a technical one. The railway has to be fairly deep to be under Carling avenue.

Mr. COWAN: Yes.

Mr. D. L. MACDONALD: There is a limit to how much grade you can put on a main line railway. The railway being down it seemed wiser to leave it down and let it climb up at a good railway grade rather than bring it back up too abruptly.

Mr. COWAN: You do not start to climb until you are past Gladstone; is that accurate?

Mr. D. L. MACDONALD: That is correct.

Mr. COWAN: The only things, Mr. Chairman, I would be interested in knowing in general are the figures of the extra expenses involved in continuing the cut for that very lengthy distance as compared to bringing it up as quickly as possible to the surface after passing under Carling and putting in a good level crossing with signals at Gladstone.

The CHAIRMAN: Mr. Macdonald, could you get some kind of estimates?

Mr. D. L. MACDONALD: We could supply the estimates later.

The CHAIRMAN: Mr. Peters, have you finished?

Mr. PETERS: I pass.

The CHAIRMAN: Mr. Barnett.

Mr. BARNETT: Perhaps, as the member who originally suggested in the house that this bill come before the committee, I might be permitted one or two remarks before I question.

The CHAIRMAN: Yes.

Mr. BARNETT: As the members will recall, when the bill came for second reading it came rather unexpectedly after having been quiet for some period of time. I have forgotten the date. The general has already mentioned that in 1956 there was some examination of this. I think all of us will agree that not too many of us were members of parliament in 1956.

My own feeling was that the present commons should not merely put a rubber stamp on what was done by the previous parliament. As far as the discussion that took place in the house was concerned, virtually all of the interest centred on this question of the advisability or desirability of the relocation of the present station site. That, quite frankly, is my interest in the bill. I am not opposing the idea of the terminal railway as such.

I think this question of relocation is a valid concern of the members of the house. It has been indicated by some other members that they have an interest in the question. I think that should be properly pursued. Some of the questions that are in some of our minds have already been raised by Mr. Peters. My interest is in that particular question.

As far as I can see from the outlines that we have had already this morning the whole question hinges on the establishment of the particular piece of railway line that lies between the proposed new station site and the present Union station site. The whole question is of passenger traffic and passenger convenience; and what I call traffic fatigue is involved.

As far as I am concerned one of the main advantages of travel by rail rather than air is that it avoids the confusion of having to transfer from the airport into a limousine or taxi or car or something else.

I feel that the responsibilities as outlined in the bill on the proposed railway terminal are very much a part of this question. I notice some of the questions that are in my mind were touched in part, at least, by the committee in the other place. Mr. Macdonald was asked about the origin and destination of passengers. He said that had been dealt with in 1958 and 1959. He did not receive the particulars. I noted in the Senate evidence it is indicated by Mr. Burns that—

The CHAIRMAN: Would you give me the page number, please?

Mr. BARNETT: Page 14 on No. 1. Mr. Burns says: "I would not like to quote percentages without the figures in front of me. A large number, very close to three-quarters of the incoming passengers to this city, are business men going principally to government agencies". I think that statement is in line with some of the questions already raised by Mr. Peters.

I was much interested in the general's reference earlier to the government approval in principle of the plan of redevelopment of the Preston area. I have no objection to removing that eyesore. The general did mention the possibility of having a 500 or 600 room hotel. He mentioned the possibility of a convention auditorium and of a number of office buildings. It seemed to me that this plan as it has been approved in principle lends weight to the contention that I understood has been made that something of the nature of the

kind of development we now find in the suburbs of Montreal could very well be there. The question that immediately occurs to me is why can there not remain a modern, attractive and convenient passenger terminal as part of the complex so one can step off a train—without having to go through the commotion that is involved in airline travelling—and be here in the complex.

The general has already mentioned a four lane driveway from the proposed new station to this area. That leads me to ask the general why it would not be possible to retain—and I am not competent in the technical field—a double track rail line to this area with the proposed driveway on either side of it. I would like to ask what information the commission has on what would be the cost of that kind of development as opposed to a four lane driveway. For example, how many level crossings in this proposed driveway are involved as it is presently designed? And if there are level crossings which might be a problem, if the rail line were included as part of the plan, what would be the cost of closing off the level crossings or building separated crossings? It seems to me this is very much at the heart of the question.

The CHAIRMAN: Personally I must say I think it is well to have this matter discussed. Perhaps someone might have raised the point that the location of the station is almost a *fait accompli*. The fact is we are all aware that the members of the House of Commons have not had an opportunity to examine the plans and operations of the National Capital Commission since 1956. That is why I think we should have certain latitude before considering the bill to obtain that type of information which we have not been able to get as a committee of the House of Commons for the past eight years. I would like you to phrase your questions. I think your remarks are very much to the point. Would you please put your questions now to Gen. Clark.

Mr. BARNETT: The specific question is in connection with the line, which is part of the arrangement of the proposed driveway which would enable passengers to run directly to the terminal. I would not eliminate the suggestion that passengers desiring to do so should be able to disembark at the proposed site.

The CHAIRMAN: Gen. Clark.

Gen. CLARK: As I mentioned before this was a study made some years ago. If you would permit me I would like to quote some figures. These were 1959 figures.

Mr. ROCK: Could I put a supplementary which I think would cover the question as a whole? Might I be permitted?

The CHAIRMAN: If Mr. Barnett has no objection.

Mr. BARNETT: I have no objection.

Mr. ROCK: I think most of us here are concerned whether every effort was made to retain the commuter station within the same locality as it is today, whether every effort was made in the complex future plan of the capital commission to retain the station there.

The CHAIRMAN: I think we all get the point. Please go on, General Clark.

Gen. CLARK: I will answer the supplementary question first. It is my understanding that the planning that led to the railway relocation was initially the plan for the national capital prepared by Mr. Greber.

The question of leaving Union station in its present location for some time and moving it at a later date to Hurdman's Bridge was considered. I have a paper here which gave some of the estimates of the financial implications of it. The government decision and recommendation by the commission was made in 1959. The estimate brings up five points: Construction of new depot tracks and a high level bridge over the Rideau river and approaches; construction of a

new loop in Ottawa east for turning passenger trains; overpass structures over the Queensway in Ottawa east; installation of a new signal system for Rideau river to Union station, and rearrangement of existing station tracks and facilities in vicinity of Union station.

These were the various headings, and the estimated expenditure at that time was \$3,100,000. The decision or the recommendation of the commission was at that time to locate it at Alta Vista, and this was referred to the author of the master plan, Mr. Greber. He supported this view. That recommendation was then made to the government and it was approved at that time on, I believe I said, the 1st of August, 1959.

Mr. BARNETT: Would it be possible, Mr. Chairman, to have this tabled so it could be attached to the record of the committee?

The CHAIRMAN: Yes. Is it the wish of the committee to attach this schedule to the report of the committee?

Agreed.

Mr. ROCK: The other part of the question was not answered. Was there every effort made to retain, not necessarily the same station but a station at the same area? Was there any plan or possible plans proposed to retain it there and was it then found that it was not possible? Was there an effort made to retain the central station within the same area? I do not mean necessarily to keep the old building there but a new station within the same area. Was every effort made in that direction?

Mr. CLARK: Mr. Chairman, the commission on the advice of its planners and Mr. Greber accepted the proposal that the station should be moved. In other words, the commission and its planners, the people who made the over-all plan for the capital recommended that these lines be removed. You could not say that the commission tried to make a plan to keep the station there. It was in favour of the plan for the national capital which called for it to be removed.

Mr. BARNETT: Just arising out of that answer I would like to ask whether at that stage any consideration had been given to the outline plan for the redevelopment of the Union station area, which he mentioned earlier this morning?

Gen. CLARK: Yes, Mr. Chairman, the commission had made tentative plans, outline plans, for this redevelopment. Before recommending the plan to the government it was decided that it would be advisable to engage a government consultant to review all the planning to make sure that the commission's plans for development carried the favourable judgment of other planners. John P. Parkin and Associates were engaged as the over-all planners and they engaged other advisers. I believe it was DeLeuw Cather and Company on traffic, Sasaki & Strong on landscaping and Larry Smith and Associates, real estate consultants. He engaged a number of other consultants to advise him on all the factors related to the over-all plan. He brought forward a new plan of how this area should be redeveloped.

There are differences between it and the original plan prepared by the commission, especially in relation to traffic because the traffic situation had changed, the pressures had grown. Generally, the plan for the area was contemplated for similar use by both the commission and the planners they had engaged.

Mr. BARNETT: I wonder at this point if perhaps we could have a more detailed answer to the question I raised with respect to the retention of passenger rail lines in relation to the proposed driveway, the question of what effect that would have on the vehicle traffic pattern in the city, either in connection with the commission's driveways or with the city's traffic arteries.

Gen. CLARK: Mr. Chairman, in answering the question I cannot be absolutely specific because measurements and all sorts of things come into play. I do not believe this could be done very easily. I do not think it would be possible to have the driveway and have enough room for the railway lines into the present Union station area. I doubt the amount of land would support both the railway and the driveway.

Mr. COWAN: There are two sides of the canal.

Gen. CLARK: We have the driveway on the west bank of the canal which runs through Confederation square down alongside of the canal to Dows lake, and connects into Carling avenue on Highway 16. This was, I believe, the first driveway that was built by the Ottawa improvement commission started around 1900. That is the one on the west side.

Mr. COWAN: I was born here in 1902. Thank you for telling me.

Mr. BARNETT: I understood General Clark to tell us that the commission plans a four-lane driveway running from the proposed Union station site to the area of the present Union station. In relation to his remarks about space requirements, a double track railway dividing a two-lane driveway requires substantially more space than a four-lane driveway, to the extent that it would make such a plan unfeasible or inadvisable.

Gen. CLARK: I cannot give a definite answer to that.

Mr. BARNETT: And the levels in respect to underpasses and overpasses are very important matters.

Gen. CLARK: Grade separation would definitely be required no matter how you do it. If you tried to put the driveway and the railway lines in wherever they intercept you would have to have a separated crossing. I think it would be very difficult. How much space a two-lane driveway and two-line railway would require I would have to check very carefully. I would think it would require more. I would have to check this.

Mr. BARNETT: Let me put my question in a different direction. Suppose, just for the sake of discussion, a two-line railway were substituted for the present proposal for a four-lane driveway, what effect would that have upon the commission's plans for driveway development and what effect would it have upon the general traffic pattern and flow in the central area of the city?

Gen. CLARK: There is no doubt you could put in a double-lane track rather than a driveway. That would present no problem. You would then have to start grade separating the Queensway and the railway line, because where the Queensway has to cross the rail lines you would have to redesign to bring it over the railway.

Mr. BARNETT: As I understand, it, under the original plan of postponing the abandonment of Union station the Queensway would have had to cross over a fairly extensive area of railway track.

Gen. CLARK: That is right.

Mr. BARNETT: Has the commission considered the difficulties in relationship to the Queensway crossing over, and I am using the two-line railway which as a line I am assuming might be sufficient to facilitate movement of passengers in and out from the area?

Gen. CLARK: It was one of the considerations in the commission's recommendation not to leave Union station where it is and then move it at a later date but to get it out before the Queensway was completed so one would not have to provide these grade separations which would then no longer be needed.

The commission was always contemplating moving the railway station. The question was to which location. The first, as I mentioned, was Walkely

road. Then it was decided that if you leave the station in operation and build the Queensway you would be faced with great separating structures. That was one of the features that led to the recommendation to the government to change the site to Alta Vista and remove the lines much earlier than had been contemplated.

Mr. BARNETT: What other grade separation in addition to the Queensway would be required or desirable if the rail line was left running through that area?

Mr. PETERS: Another \$3 million?

Gen. CLARK: I do not know. I do not believe I can answer this one. One could say there would be no more grade crossings. If one wanted a crossing, if there was pressure for traffic to cross, one could say it must be by elevated structure. This pressure would have to be great.

My presumption is that one would never build a level crossing in that area because when the traffic gets to a certain volume the board of transport commissioners, I understand, order for safety reasons, that there should be no level crossings. My presumption would be that they would be elevated.

Mr. PETERS: Would it not be correct to say that because of the relationship between this traffic on the railway that I have been talking about to the canal that the number of crossings in any event would be fairly restricted or limited?

Gen. CLARK: Yes, I would think, Mr. Chairman, they would be limited. If you leave the railway lines they are limited now. I would presume they would remain limited.

Mr. PETERS: It seems to me this is the sort of information that goes to the very nub of the question in the minds of some of us. I wonder whether in a general way at least we could have some information and some estimates of the cost involved in this sort of proposal without too much delay or difficulty.

Gen. CLARK: Yes, we could make estimates on this. It depends on the refinements you want. If you want a precise estimate we would have to engage consultants. We do not have a staff large enough to make a tentative design and get a precise estimate such as you would place before the government for approval. I think that we could come close enough to have a good round estimate on this.

In this connection I would think that one would never consider trying to do both. I think it would be the railway or parkway. I doubt that it would be a good operation and we should not try to make an estimate of the cost of both.

Mr. BARNETT: Will you ascertain whether the committee would be interested in having this kind of information? I certainly as one member would be very much interested in having that kind of information to the degree of accuracy that has been indicated.

The CHAIRMAN: You appreciate that your proposal is rather general and you cannot expect more than general figures. General Clark has said he is willing to give us that type of answer.

Your proposal is rather broad. You mentioned a double line from Union station to the new station and also the two lane highway instead of the driveway. Those are things which have not been contemplated by the commission, as I understand it. We cannot expect more than a general figure. Is that what you want?

Mr. BARNETT: I think we could get an idea on this point. Naturally on the question of whether a double line would provide passenger service, I think that is something we can ask the railways about rather than Gen. Clark.

The CHAIRMAN: Is that the wish of the committee? They are prepared to do their part in providing some information. Mr. Millar:

Mr. MILLAR: Could I ask a supplementary question? The Queensway is one that is going to be used to cross over. You have four lanes on the Queensway. There have to be overpasses in this locality anyway. Is this not true? It does not matter. It has to have overpasses any where you are going to run the line across.

Gen. CLARK: There is an interchange loop with the Queensway, that is true; you have to have it with that volume of traffic. You have to separate traffic.

Mr. MILLAR: It is separated anyway? Is it not also possible to put a road on top of the railroad.

Gen. CLARK: Yes, it would be. It might be possible to depress the grade. It might be possible to depress the grade from an engineering point of view, depress it and put the road on top of it.

Mr. MILLAR: Is it not also true that you intend to raise the grade for the whole area? The plans call for considerable fill in that whole area.

Gen. CLARK: I do not know about fill in the area. I will ask Mr. Macdonald to answer that.

Mr. D. L. MACDONALD: The Parkin proposal contemplates a certain amount of fill in the present station area. It does not contemplate any fill south of Laurier, that is from Laurier avenue to Deep Cut which is the longest distance of rail line.

Mr. PETERS: It is quite feasible, Gen. Clark, to put in an eight or 10 foot tunnel and run your four-lane highways over the top of this.

Gen. CLARK: Yes, that is what we had in mind. I cannot see any technical problems; unless the railways are aware of some, as long as you can get proper grades. This would seem to me to be a feasible plan.

The CHAIRMAN: Mr. Millar.

Mr. MILLAR: Gen. Clark, is it not a fact that the whole redevelopment plan as now laid out is hinged on the removal entirely of the damn railway tracks.

Mr. COWAN: Which railway tracks?

Mr. MILLAR: The damn railway tracks. I can make it even more definite!

Mr. COWAN: Specify whether C.N.R. or C.P.R.

Mr. MILLAR: All railway tracks including the station. Is that not the principle?

Gen. CLARK: Mr. Greber thought it was the key to the whole plan of re-developing the city.

Mr. MILLAR: Why are we wasting time talking about a possible railroad that is not needed? You are not supposed to answer that.

Mr. TARDIF: Do you know how many grade crossings will be eliminated by this new plan?

Gen. CLARK: About 70 grade crossings or level crossings.

Mr. TARDIF: Seven?

Mr. CARON: Are you going to do anything to the station in Hull?

Gen. CLARK: Yes, that will be renovated.

Mr. CARON: Do they intend to build on the other side of the station for Hull's railway.

Gen. CLARK: The plan calls for the renovation of the station in Hull.

Mr. CARON: Renovation? What kind of renovation can they make on that? It is an old shed. I do not see what kind of renovation they can make in Hull.

The CHAIRMAN: Are there any more questions of Gen. Clark?

Mr. CARON: I would like to know what kind of renovation they intend to make in Hull.

The CHAIRMAN: Can you answer that?

Gen. CLARK: In general terms the plan is to provide adequate parking and to enlarge the building and to fix it up.

Mr. CARON: When it comes to Ottawa you have a definite plan. When it comes to Hull there is no definite plan. Is it not possible to do something definite for both sides of the river? We are both in the National Capital Commission. We expect to have something equivalent, not as big, but something as important on the other side.

Gen. CLARK: As I mentioned, the plan is not to build a new station in Hull but to renovate the one that is there and make certain changes in the railway connections in Hull. Mr. McQuarrie, would you show the changes in the railway lines in Hull on the map.

Mr. MCQUARRIE (*Railway Consultant, National Capital Commission*): At the present time passenger trains from the north shore, from the north side of the Ottawa river come down to Hull across the Interprovincial bridge into the present station. There are no passenger trains operating into what we call Hull west. It is strictly a freight and express terminal. With the taking away of the Interprovincial bridge all the passenger trains from Montreal along the north shore will come down through Hull, through Hull west, and across the Prince of Wales bridge into Ottawa west and down to what they call the Prescott sub-station line of the C.P.R., under the Queensway, across Carling avenue and then into the new station. In Hull now the C.P.R. have two stations, one they call the Hull Beamer station, which is near Brewery Creek, and another one called Hull west, near Montclair I believe. The Hull west station will be the only remaining station in Hull serving passenger trains from the north shore of the C.P.R. and it will require substantial remodelling.

Mr. CARON: Not substantial remodelling, you will have to rebuild. It is an old shed. I know the plan was to have a north station and a sub-station. That was the first plan. I know Ottawa is important in the capital district, but Hull is important. You cannot use that just to pass into the Gatineau woods. You have to deal with Hull itself. You are not dealing with it at all. You are throwing it to the boards. I do not like this. I think there should be a plan for Hull the same as there is for this side of the river.

The CHAIRMAN: All right, gentlemen. Mr. Caron, that is the answer General Clark can give.

Mr. CARON: I am not satisfied.

The CHAIRMAN: You will have to make your representations to the capital commission and the railways.

Mr. CARON: I would like the capital commission to do the same thing in Hull.

Mr. COWAN: I would like to point out that these plans have been under consideration since 1956. That is 8 years ago. They have not been brought before the railway committee to any extent. Could you advise us? I know you are an experienced man in this field.

I would like to ask this, Mr. Chairman: this bill came before us on November 26. I notice in Clause 26 on page 17 of this bill, S-33, it is stated that the transfers of land and facilities shall take place on January 2. This gives us 37 days and there are only five Sundays, six Saturdays, Christmas Day, New Year's Day and Boxing Day between now and January 2. I think this time limit is too extensive. Could it not be shortened up? It is right there on page 17, Clause 26.

Mr. FISHER: The Senate has done its part.

The CHAIRMAN: I count on you, Mr. Cowan, to bring up the important points.

Mr. COWAN: I would like to ask a question regarding the taxi services. Are these two gentlemen witnesses before us now?

The CHAIRMAN: Mr. Cowan, we will come to that in the bill. There are sections definitely dealing with these specific matters.

Mr. COWAN: I do not want the witnesses to go away and find out later that we need them.

Mr. FISHER: Before we get into the bill are we going to have an opportunity to examine the spokesman for the railways, for example, Mr. Macdougall?

The CHAIRMAN: I thought the examination of these gentlemen would come on the specific sections of the bill because that is what they are interested in. I would not like to open discussion on the sections of the bill at this moment.

Mr. FISHER: I wanted to find out the relationship between this new company and any contracts that exist at the present time between railway management and its employees. I want to know about that relationship. I cannot find anything in the bill.

The CHAIRMAN: Would you agree they should be allowed to do that when we get into the bill?

Mr. FISHER: If this committee is agreeable.

The CHAIRMAN: Shall we proceed with the bill?

Mr. PETERS: No, I am interested in a number of other things. I would like to ask what relationship the present authority operating Union station has with the capital commission? Who is Union station?

Gen. CLARK: The Union station is owned by the Canadian National Railways.

Mr. PETERS: What about New York central and C.P.A.? What authority runs Union station at the present time? I am not sure.

The CHAIRMAN: Mr. Peters, after we got through the bill I intended to call Mr. Macdougall.

Mr. COWAN: Might I answer his question?

Mr. PETERS: What we are doing is establishing authority. This is what the bill says—to establish the terminal railway company which is really authority for operating the new terminal set up. I do not really know who runs the present one. I do not know how the capital commission gets involved in this at all. I know there is an appendage. I know this agreement has been signed by the capital commission and members of other parties. I am not sure whether they used undue influence to force the agreement to establish this terminal or whether the railways would like the right to come and say we want to maintain the Ottawa terminal where we have it now.

It appears we are changing the status quo of the operation of Union station, and in return for this we are substituting another authority. I would think parliament established the Union station authority in the first place. We gave grants and leases and these companies probably got together and made these arrangements. I think we should call on the participants to the present railway set up before we go into the bill.

The CHAIRMAN: That is why I suggested we get to Clause 1 and call on Mr. Macdougall. Then you could discuss the whole matter of Union station and the Ottawa terminal company with Mr. Macdougall. I should also ask Mr. Spence, counsel for Canadian Pacific Railway to sit down as a witness as they are also involved.

Mr. PETERS: Mr. Macdougall, what was the arrangement for the operation of the Union station and how did it originally start?

Mr. J. W. G. MACDOUGALL, Q.C. (*General Solicitor, Canadian National Railways*): You are interested in the present station, the Union station as it is now?

Mr. PETERS: I do not know. Is there an arrangement pre-dating the present one?

Mr. MACDOUGALL: Well, I am not sure of the exact history back to the very beginning of the railroads in Canada. The present station was originally built by the Grand Trunk Railways. Canadian National, as successor to the Grand Trunk, is owner of the station, the station premises and property. We have an agreement with Canadian Pacific whereby Canadian Pacific has the use of the station and facilities. Canadian National operates the station. The employees are Canadian National's. Canadian Pacific Railway pay for the services that they receive. I think the ticket sellers in the station for Canadian Pacific are their own, but otherwise the employees that operate the station are Canadian National's employees. Under the agreement Canadian Pacific pays for the services it receives in accordance with the terms of the agreement.

Mr. PETERS: How do you own the station facilities and the trackage, under what basis do you own these?

Mr. MACDOUGALL: They were originally built by Grand Trunk.

Mr. PETERS: Was that a grant from the federal government? Was this land granted by the federal government?

Mr. MACDOUGALL: I cannot answer the question. Grand Trunk came into the city of Ottawa and built here. How they acquired title to the land I am not sure. This was part of the property owned by Grand Trunk at the time of amalgamation.

Mr. PETERS: If you do not know how you own it, how can you give it away?

Mr. MACDOUGALL: When the title deeds are proved, when the land transfer is made, this will be dealt with in the normal way and transfer will be made. Our records show we own title to the land in fee simple now.

Mr. PETERS: The operation, you say, is owned by Canadian National and Canadian Pacific operates out of it on an agreement basis.

Mr. MACDOUGALL: They are lessees of ours in the area. This is quite common in railways. This is not an unusual situation. You have a union passenger terminal or some joint facilities.

We have numerous agreements of this kind in Canada and the United States railways do the same. One railroad operates the terminal and the others use the facilities under an agreement.

The CHAIRMAN: Mr. Peters.

Mr. PETERS: Would it be a fair question to ask the witness if he is familiar with the passenger studies that have been made of the commuter services, particularly in the cities of Montreal and Toronto in relationship to this stage?

Mr. MACDOUGALL: No, I must confess I am not familiar with the details of these studies.

Mr. PETERS: I am wondering if you can tell why the union station in Montreal, Canadian National, has been moved into what must have been an immensely expensive location in the basement of the Queen Elizabeth hotel.

Mr. CARON: The hole was there.

Mr. MACDOUGALL: You will remember, Mr. Peters, in the days before Canadian National was formed Canadian Northern Railways came into Montreal from the north and came to the town of Mount Royal, and from Mount Royal it went to the present location of the central station, quite near it. Grand Trunk came in to what is now Bonaventure.

Mr. PETERS: Yes, it used to be Bonaventure.

Mr. MACDOUGALL: As planning of the city developed these two railways developed. These two railways both came into Canadian National. Presumably long before my time somebody decided the thing to do was to have one station and, as someone mentioned, the hole was there and the station was brought in to that point. After that, of course, the development went right on.

Mr. PETERS: Then underground railways in the city required some maintenance.

Mr. MACDOUGALL: Yes, of course.

Mr. PETERS: If there was no advantage in having passengers get off in the downtown section would it not have been to Canadian National's advantage to put it out in say, Dorval?

Mr. MACDOUGALL: As you probably know in a big city like Montreal we have quite a volume of passengers coming from a number of stations. For example, Dorval is now a fairly substantial station. It has grown up in recent years. The Town of Mount Royal is a fairly substantial passenger station for people in the north end of the city. Of course you have Westmount and Montreal west on the C.P.R. which draw a lot of people. Montreal is served by a conglomeration of stations, some in the centre, some in the peripheries.

Mr. PETERS: Would it be your opinion that Canadian National could, instead of having a downtown terminal, put the terminal on the trans-Canada highway on the northern periphery of Montreal?

Mr. MACDOUGALL: You realize people that come to Montreal central station do not, of necessity, want to terminate their journey in the downtown section of Montreal. Many go to Mount Royal, Montreal east, Montreal west and so on.

Mr. PETERS: Which has provided a lucrative business?

Mr. MACDOUGALL: I do not know that anyone will agree with you on a generalization that the passenger business is lucrative business. I do not think it is.

Mr. PETERS: This raises a very good question. Are you interested in passenger facilities?

Mr. MACDOUGALL: I think the activities of our company speak for themselves. They are well known throughout the country.

Mr. PETERS: I ride on Canadian National coming from western Canada. I have had considerable difficulty getting them to make connections with connecting railways which, by law, they have to do. I do not say this is the general situation; it may be specific. I am not sure it is generally true. If it is true, is there not some advantage in Canadian National providing as acceptable accommodation as possible for the travelling public?

Mr. MACDOUGALL: This is, of course, what we try to do. The job of a railway, like the job of any industry, is to decide what its customers want and try to provide for their wants. Many customers want directly opposed things to what another customer wishes to have. You have to take all this into account and you do the best you can with the limitations and disadvantages. We do the best we can. We think we do a pretty good job of trying to look after our customers in our passenger trains. There are always exceptions. Generally speaking we are interested in doing the best we can.

Mr. TARDIF: On a point of order, I find difficulty in knowing what the questioning being pursued by my hon. friend has to do with the bill or any section of the bill. I think we are wasting a lot of time when we are talking about everything else except what is in front of the committee.

The CHAIRMAN: I do not think we have wasted too much time. I was going to suggest to Mr. Peters that I had thought he wanted to put questions to Mr. Macdougall as to the relationship of Canadian National Railways and Canadian Pacific Railways and the National Capital Commission. Mr. Macdougall is counsel for the railway. We are not examining Mr. Gordon at the present time. We will have that pleasure in about three or four months from now.

Mr. PETERS: I will apologize to Mr. Macdougall. I thought he was an official of the railroad. My point, Mr. Chairman, on a point of order, is that I think we have been asked to give up a facility that we have. Canadian National, very remotely, belongs to the Canadian public. They already have facilities that provide 85 per cent of the traffic of businessmen entering the terminal in downtown Ottawa. We are now being asked to form a new agency which will take that downtown terminal out of the downtown area. It seems to me, therefore, this causes the businessman the cost and the disbursement of hiring other transportation facilities than railroad to bring him where he is already coming now.

Mr. TARDIF: There is nothing in this bill that discusses relocation of the station. It talks of forming the Ottawa terminal railway company for the purpose of delivering freight and other things from the station to other parts of the city. I see no section dealing with relocation of the station. If you can show it to me I will be glad to stand corrected.

Mr. PETERS: I think that question should be directed to the Chairman.

Mr. CARON: Clause 9.

The CHAIRMAN: If the company is going to be incorporated it is for the purpose of operating at a certain location. There is very little in the bill after the beginning that is of interest to members to discuss. I will admit that. Section 9 says that the company may acquire, construct and operate a railway and related facilities in and about the city of Ottawa for the purpose of providing a transportation terminal. We could get into it on section 9.

Mr. TARDIF: Section 9 does not talk about relocation of the station, which is something that is already decided.

The CHAIRMAN: We are examining the fact. This is a committee of the House of Commons. It is entitled to information on how that decision was arrived at. I will agree with you, this will not change the location, but the committee is entitled to know how the decision was arrived at.

Is Mr. Peters through?

Mr. PETERS: I would like to ask the Chairman how he arrived at the conclusion it will not be changed. We people of Canada own the Canadian National Railways' Union station in its present location. We are the people who are going to have to decide whether or not it is changed. Canadian National Railways are responsible, I guess, to us for this change. I do not think this is an irrevocable decision.

The CHAIRMAN: I am not saying it is irrevocable. Parliament is the master of everything. Under this bill you cannot change it. You are not going to put a clause into the bill unless you move it in the house. You are not going to add a clause saying the railway shall be located somewhere else.

Mr. COWAN: You could not pass the bill.

The CHAIRMAN: That is all you can do.

Mr. PETERS: Could I change the direction of my question? There is an appendage attached to this bill, there is a memorandum of an agreement that has been signed by a number of participants, Canadian National Railways, Canadian Pacific Railway, the National Capital Commission, and maybe others.

What position did Canadian National Railways take in relation to the establishment of this memorandum of agreement in terms of trying to maintain or retain present facilities on a passenger basis in the downtown Union station?

Mr. MACDOUGALL: I think, generally, Mr. Chairman, if the National Capital Commission had not been in the picture Canadian National Railways would have been quite satisfied with the Union station. The station is there. Our operations are there. As far as the station is concerned, we are quite happy to leave it there. The development that has occurred has been a development of the National Capital Commission plan; and this is not something that the railroads, at least Canadian National Railways, has sponsored. We are a railroad in the city of Ottawa; and the Canadian National Railways plan developed, and we were asked to co-operate and do certain things. There are many good things in the capital plan. This is not our responsibility.

Our responsibility was to co-operate with the commission and to do what we could. We worked on the basis; and as far as our company was concerned, we would not be adversely affected, particularly from this development. We would be made whole with respect to what the National Capital Commission was to bring about in the way of changes in Ottawa. On the basis that we would be made "whole", we did not feel we could stand in the way of the National Capital Commission plan. We co-operated. There may be some things we do not like. There may be things we would do in another way. This is the planning of the National Capital Commission. This is the arrangement. We have gone along with it.

Mr. PETERS: Do you believe that this plan dating back to the Greber plan in 1915 was a *fait accompli* at that time and that there was no possibility of change?

Mr. MACDOUGALL: We accepted what we understood has been the decision, that the plan will go forward in the form in which it is presented here. We have not attempted to fight it, you might say. The plan is made. We have been told these arrangements will go forward. We have accepted that and gone forward in that light.

Mr. PETERS: Was any consideration given by the railway to the possibility of a change?

I think the witness will agree there has been some change since 1950 in railway riding as far as passenger services in the city. Is it not true that in 1950 you still had steam engines, and the environment of your operations in the city was considerably different than it is with the total diesel lines? Even in the terms of the National Capital Commission, which is thinking of beauty, this has made a considerable difference.

Mr. MACDOUGALL: I do not know that those were factors that weighed very heavily in the development of the National Capital Commission plan. That is not to my knowledge.

Mr. PETERS: The old steam burners must have had some disadvantages. Could I ask if any proposal was made to maintain the passenger terminal in the present location?

Mr. MACDOUGALL: Well, I explained our basic position only has been that, and therefore we have been asked to accept something else. We feel we can live and work with what has been proposed.

Mr. PETERS: Did you feel you could make proposals such as suggested by my friend from Comox-Alberni that the downtown terminal be limited to passengers and baggage and that would meet the needs of the travelling public? Were you prepared to make proposals or was the railway of the opinion this was a *fait accompli* and that they really could not meet that suggestion?

Mr. MACDOUGALL: I am sure these points were discussed. I think the major point was that this was National Capital Commission planning and the railways were being asked to make certain changes to remove railway lines and consolidate facilities. There was going to be great improvement and we hope more improvements will develop to our freight traffic on an over-all basis. I am sure all these things were discussed in detail. Our position was basically that the National Capital Commission was the planning commission and we were willing to co-operate and do everything we could to fill requirements as long as we were made whole in the process.

The CHAIRMAN: Mr. Fisher?

Mr. FISHER: I would like to ask a couple of questions with respect to the relationship of Canadian Pacific Railway and Canadian National Railway in the sense of being partners in terms of control and contributions.

Most of us have noticed there is a development in Canadian Pacific Railway that would indicate real efforts toward eliminating their passenger service altogether. I was wondering whether the co-operative framework would inhibit Canadian Pacific Railway by making it difficult for them so to eliminate their passenger services here in Ottawa?

Mr. SPENCE: I do not think so, Mr. Fisher. To start with, I think you are referring to some public utterances by senior officials of our company?

Mr. FISHER: Yes.

Mr. SPENCE: Recently, and I think they were merely pointing to a trend which we find pretty well all over Canada of diminishing patronage by passengers of the railways.

Now, we do not discontinue our trains that make us money, and we hope that that trend can be delayed, or stopped. We have not found that in the Ottawa area it has been as marked as it has in some other places, and we hope that we will serve Ottawa for many years with passenger trains.

Mr. FISHER: In the presentations before the Senate committee, some of the witnesses got off in the future 70 years, with hovercraft and heliports, and it seemed to me that people are looking very far ahead, and I wondered if C.P.R. has considered the fact there are some indications that policy had changed, and they may pull out of passenger service altogether?

Secondly, I inferred from Mr. Crump's remarks that C.N.R. and C.P.R. were looking forward to the day when they would be out of passenger service, whether it is remunerative or not. It seems to me, from looking at the act, that the commitment of C.P.R. to this development is a very real thing; for in a few years there would be a difficulty, or embarrassment to it.

I could point to previous joint arrangements, such as the Vancouver Hotel, which at the beginning appeared to be fine, but at the end was not working out at all. I just wondered whether C.P.R. considered any release clauses, or the possibility of getting out of this whole matter?

Mr. SPENCE: No, I do not think that we had any release clauses put in the memorandum of agreement. Nobody can predict what is going to happen; things develop so fast these days that you just cannot tell what the situation may be 40 or 50 years hence. It may be an entirely different world, but at the present time we are trying to make money out of the passenger business as best we can, and to do that we have to have modern and comfortable and sufficient facilities.

Mr. FISHER: There is one other point that you may be able to clear up for me: The trend of the evidence, as I have been able to read it, is that this is primarily a shift of passenger facilities and passenger lines to the outskirts of

Ottawa. I agree with my friend from Timiskaming that it is a good idea, and it will be an improvement for Ottawa most ways, but I see provisions for piggyback, and what looks to me like a truck terminal there. Now, this brings up a much larger question, and it also concerned the senators when they were considering this, and that is the whole relationship of the truck transportation to this complex. Now, an amendment was accepted in the Senate to one clause of the bill that specified that this was related to, in and about the city of Ottawa, but I am a bit confused. If this is the case, that it is primarily a facility that would tie in with the passenger service and the express service that is offered by the railways in the Ottawa region, why these plans for a piggyback, and what looks to me like a truck distribution terminal, and naturally this raises the question of how open that terminal will be to other carriers.

The CHAIRMAN: Mr. Fisher, I was just hoping that we would get on that subject when the proper section is reached in the bill, because that will be open for discussion, I am sure.

Mr. FISHER: I know it will; I just wanted to get some idea of the over-all plan of the railways in regard to this terminal company, and the scale of operations there. If it is merely a passenger terminal, with the kind of ancillary services you will offer in terms of baggage and express, fine, but if that is a thorough-going, complete transportation terminal, with piggyback service, and provision for trucking, and so on, there are some questions that come to my mind about the kind of plans that both these railways have in it.

The CHAIRMAN: I think we will wait until we get to the proper section.

Mr. FISHER: I have a question on the relationship of this new railway company, the Ottawa Terminal Company, and the agreements which now exist between the company, and their employees, and I would just like a statement from Mr. Macdougall in respect of what is involved. I notice that every section of this act, in a sense, is covered by the jurisdiction of the Railway Act, but I also understand that some of the agreements which exist between the railways and their employees come under other federal statutes, such as the Industrial Relations and Disputes Investigation Act, and so on.

Mr. MACDOUGALL: Well, Mr. Fisher, you will realize that the bill is directed entirely to incorporating a railway company, and setting out therein the powers of that company and its object. The company that is to be incorporated is to have the same basic status as the two parents, Canadian Pacific Railway and Canadian National Railways, in that it will be a federal incorporation, it will be a national company, it will be subject to the Railway Act, and it will be subject to the Industrial Relations and Disputes Investigation Act, and so forth. So the purpose of this type of incorporation is to put it on the same level as the Canadian National Railways and the Canadian Pacific Railway. Therefore, basically, the statutes that apply to them because they are federal railways will apply to this company in just the same way.

Mr. FISHER: Well, what will be the employment picture of this company? For example, I would imagine that some of the present employees at the union station would be covered, and some of the services that have been divided by the Canadian Pacific Railway are covered by men who belong, say, to the Canadian brotherhood of railway workers, the general transport workers, and so on. Is there any possibility that any new job opportunities, and the different kind of employment, will lead to a separation of these people from their old relationship with the C.N.R. and C.P.R., and put them in a new framework, which may have a different bargaining set-up?

Mr. MACDOUGALL: I do not know if I can say anything particular on that. The state we are at now is to get the terminal incorporated. There has got to be detailed discussions between the railway companies with regard to the future method of operation. There has got to be discussions between our Canadian National Railways and, I presume, the Canadian Pacific Railway, with their employees. We have already had preliminary discussions, but there has got to be detailed discussions, when it is decided how the terminal will operate, and how the employees will be fitted into this in a way that will cause the least adverse effect on anybody. We hope that in future this new concept in Ottawa, with much greater industrial land available for development, and what we hope will be a more economic and effective operation here, will produce a much better, and we hope bigger, railroad for the city of Ottawa, and for the benefit of the railroad companies, of course, and the employees, but at the moment we have not reached the stage where we have detailed discussions with the brotherhoods. They will be the same brotherhoods we are dealing with now, and these things are being considered, and the brotherhoods have been informed up to this point.

Mr. FISHER: Well, I understand the C.N.R.—this has nothing to do with the Canadian Pacific—has a five year plan for 1965 to 1970 for changes and consolidations of all its services, the whole question of handling freight and express, and so on. Are these plans worked out in detail for the Ottawa portion, taking into account this new company?

Mr. MACDOUGALL: Subject to what others may know about this much greater than I, the plans you refer to are basically the general planning plans, if I may use that expression, of the railway. In recent years, we, in our planning, have followed the practice of making a plan for the following year, and a plan looking ahead for five years. This seems to be a rational and intelligent way to look at the railway business. A plan does not necessarily mean that all the decisions have been made and a button will be pressed and certain things will go into motion and that is the way it will go for five years. It is the planning process of, perhaps you might call it accurate and detailed planning for a short period ahead, say a year, and general planning of how we will proceed to certain objectives we think desirable over a period of five years, and possibly there are people looking 20 years ahead. I hope there are, but I do not think there is anything immutable in what happens in Ottawa. We are getting the company into operation before we start the detailed plans of how we will relocate the railway and terminal facilities in the city of Ottawa. This is not going to take place in one day, that everything is accomplished and done, and the change will be made that will complete the arrangements. We expect that the next three years will be occupied in gradually developing this plan of organizing this new Ottawa rail set-up.

Mr. FISHER: From the employees' point of view they will have their normal negotiating opportunities?

Mr. MACDOUGALL: Yes, they certainly will, and the thing will take place over a period of time. I have heard it said that it will probably be the end of 1966 before there is real life breathed into it.

Mr. FISHER: Do either of you gentlemen know whether any discussions have been held with the bus transportation companies in connection with providing them with any leases, land, or arrangements there?

The CHAIRMAN: I wish you would leave that until later, Mr. Fisher.

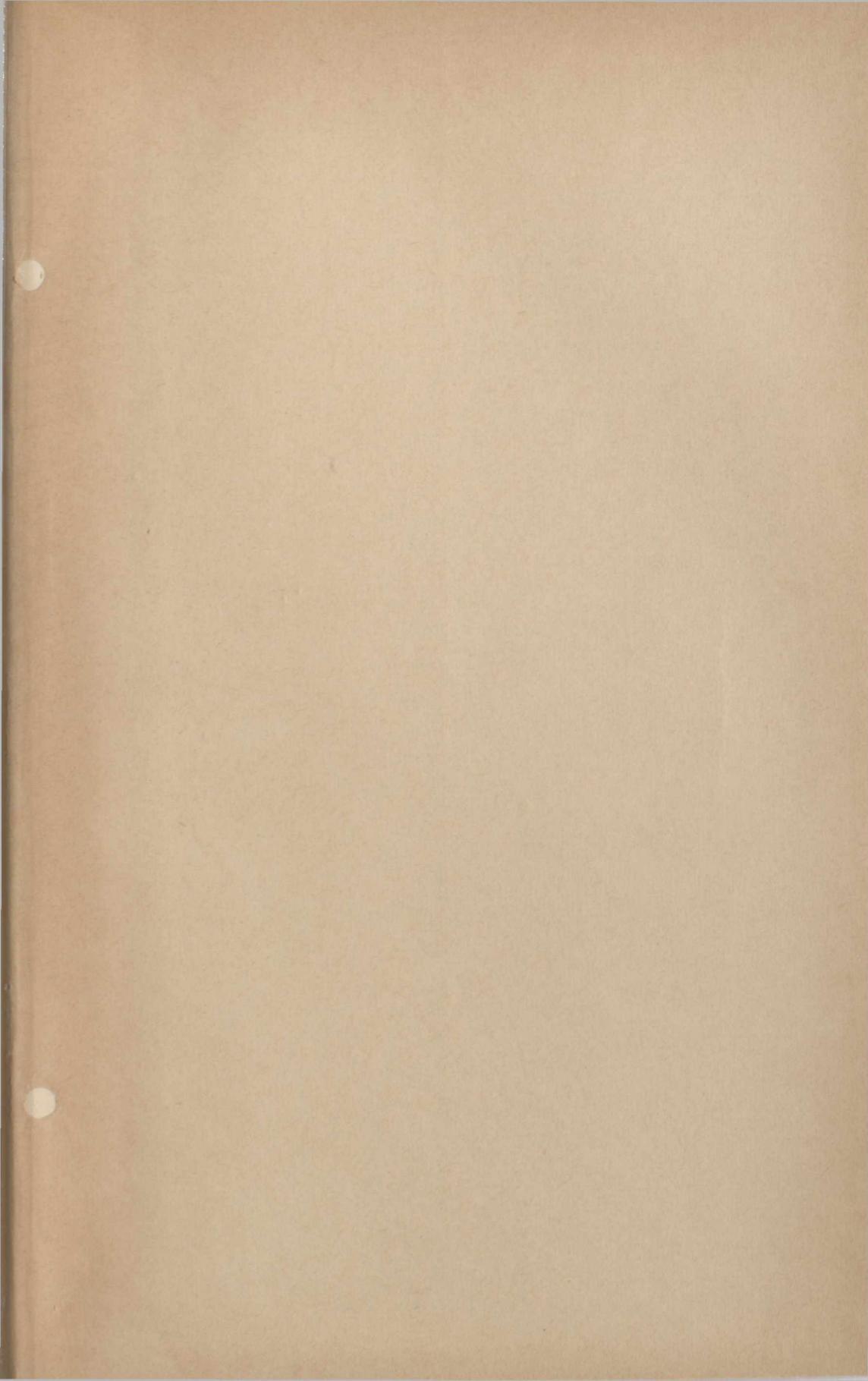
Mr. FISHER: All right.

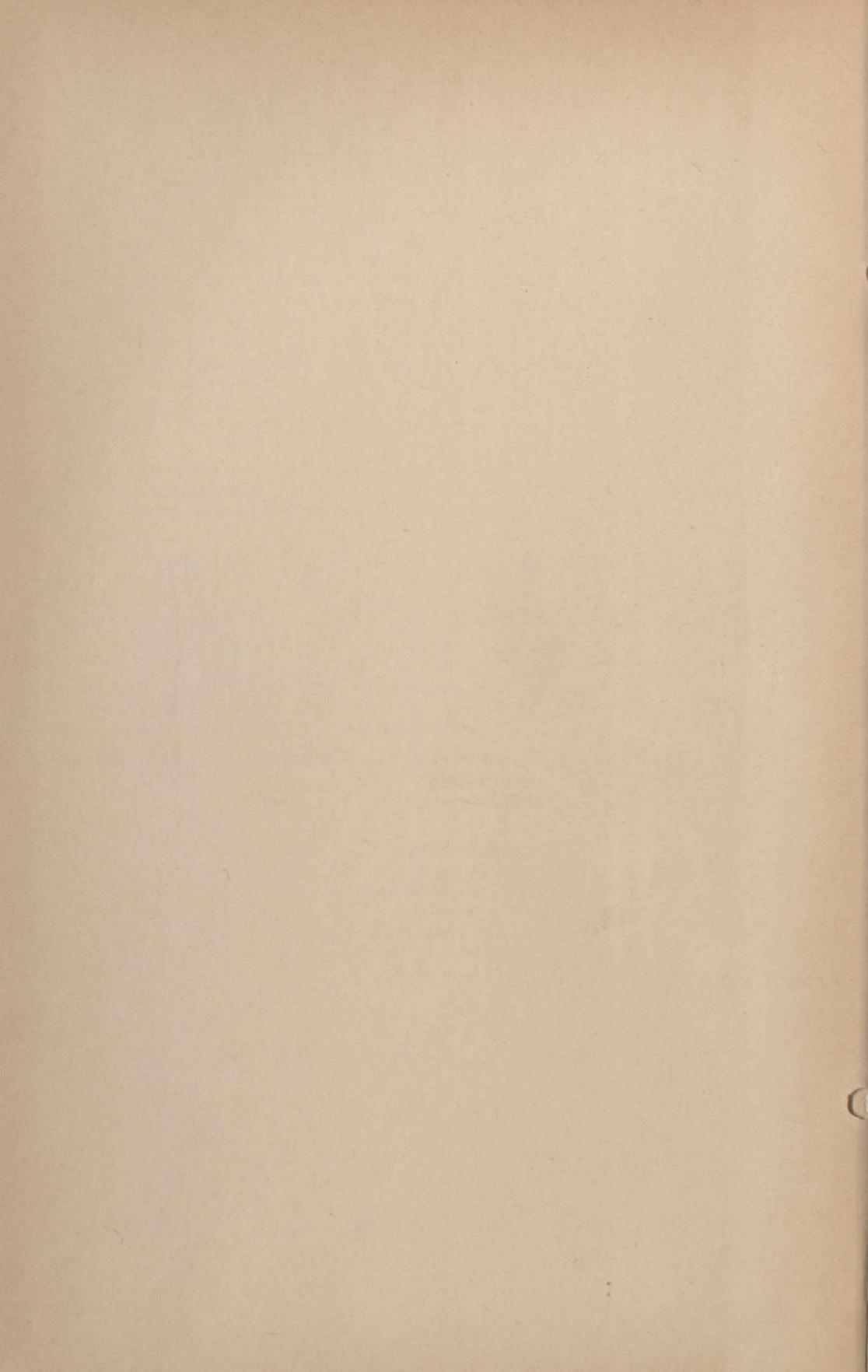
Mr. REGAN: I have one supplementary question arising out of the point made by Mr. Fisher, and that is with regard to the position of the employees of the new company in the future, and not only their wages, but the other advantages that they presently have under the Canadian National Railways, I am struck by the thought that the economic bargaining position as members, or as employees of this new, small company will be nowhere near as strong as their present position as employees of a company that has established a record of reasonably good labour relations, and a company in which, by their numbers and the size and nature of the company, they are in a very strong position. I wonder if there is any thought of giving assurance to the employees who are presently employees of the Canadian National Railways that this new company will, in its wage policy and in other policies towards the employees at all times, carry on a program as generous as that of the two railways in this country, the Canadian National Railways and the Canadian Pacific Railway.

I think that some sort of assurance along those lines should be given to the employees who are in the position that they are presently employees of the Canadian National Railways, and who are being asked to become employees of this new company.

Mr. MACDOUGALL: Well, I think that is a very good point, Mr. Regan, and I am glad you raised it. As I told Mr. Fisher, the details of this have yet to be worked out, but we have certainly assured the employees' representatives that the position of the individual employee who remains working here in Ottawa will not be worsened. He will retain his pension rights, and all the benefits he has had. The matter of his wages, and so on, will be bound up with the wages of the railway employees generally in Canada. As you know, non-operating unions bargain in a group collectively. Those that are here in the Ottawa terminal company will be part of that bargain group.

The CHAIRMAN: We will adjourn now until after the orders of the day.











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